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# THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE  
BRITISH COMMONWEALTH

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## TOWARDS THE WORLD CONFERENCE

THE last three months were by general consent destined to be a decisive stage in the history of the crisis. They would decide whether its future course was to be for better or for worse. They would show whether there was any hope of European agreement in the political field by the application of a double test, the discussion of reparations and of disarmament. They would probably reveal the fate of central Europe. They would indicate whether the reflationary measures undertaken by the United States Government were to bear fruit or not. They would bring more conclusive evidence as to the stability and efficacy of Great Britain's new financial and fiscal régime. Progress in all these matters was clearly indispensable to the beginnings of a recovery.

As usually happens in human affairs, nothing quite turned out as pure reason might have anticipated. On none of the four vital points have events given the definite verdict that either the optimists hoped or the pessimists feared. We are not yet basking in the sunshine of renewed confidence, nor, however, are we plunged in the cold shades of despair. We are still forging ahead under a grey sky, which shows some signs of breaking and lifting here and there, but which still forebodes stormy possibilities.

At any rate, Lausanne was not a failure. That in itself is an enormous gain. If there had been no agreement, the outlook would indeed have been black. But there was an agreement, accepted by all the plenipotentiaries present. Of course, there were moments when a breakdown seemed inevitable, as there always are at every conference, national or international, at which fateful issues have to be debated ; but everyone really knew that agreement must be found.

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As a Frenchman put it, the problem was how to conceal the fundamental accord with which the delegates met behind the veil of superficial discord which their public opinions demanded. It says a great deal for the conciliatory spirit both of M. Herriot and of Herr von Papen that they succeeded on the whole in this delicate exercise, for neither of them had an easy task. It also says much for the mediatory skill of the Prime Minister that he helped them so successfully to reach the desired goal. In the end a convention was signed, in fact abolishing reparations payments, but maintaining a conditional obligation on Germany to contribute to a fund for the reconstruction of Europe at some future time. Neither France nor Germany is completely satisfied by this solution, which may be a proof of its substantial soundness ; but at first sight it is curious that the French are better pleased with the shadow, which has been conceded to their thesis, than the Germans with obtaining the solid substance of their claim. Perhaps M. Herriot's reception at home would not have been so warm, and Herr von Papen's would have been less cool, but for the publication of the new Pact of Confidence in a way which gave it the appearance of a renewal of the Anglo-French entente. But even without this element the French position was greatly strengthened by the achievement of a common front with Great Britain in any negotiations with the United States, while the absence of any expurgation of the war-guilt clause left Germany without the kind of moral satisfaction to which in her present mood she attaches more importance than to material benefits, however paradoxical this may seem in the light of her economic situation.

It remains, however, for the Lausanne Convention to be ratified, and ratification is unfortunately not dependent on Europe alone, but on the result of negotiations with the United States for the remission or reduction of the war debts. Unless a "satisfactory settlement" of this difficult question is reached, "the agreement with Germany will not be ratified," the Young Plan will come into force once

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more and a new conference will have to seek a new way out. The peace of Europe is, therefore, made directly contingent on the good-will of America, for there can be no peace, and certainly no prosperity, in Europe until the whole reparations question is finally and completely buried. It is idle to prophesy what attitude will be taken by the United States, until the presidential election has determined the general line of American policy for the next four years. The declaration of Senator Borah, a particularly good diagnostician of the workings of the popular mind, is, however, significant. It seems to mean that American opinion is moving towards debt revision as a necessary measure for meeting the crisis, but is not disposed to accord it unless some satisfaction is given to the American demand for disarmament as embodied in the "Hoover Plan." That is not an unreasonable attitude. It is not sufficiently realised in Europe that if the United States Government cancels or scales down the war debts, the American taxpayer will have to shoulder them. This may have seemed a bagatelle for the richest country in the world at the height of its prosperity. It is a different affair since the national income has sunk by some 20 billion dollars in the last two years. No doubt a moderate rise in the price level would very quickly bring into the American Treasury far more than the war debts are worth, and even to cancel them would be a very paying proposition, if it were to promote the revival of trade, as most people expect. But this is an economic speculation, which may look doubtful to the man in the subway, whereas it seems to him eminently fair that other countries should agree with Mr. Hoover's proposals to lighten the general burden of taxation by substantially reducing armaments. In this way the American taxpayer might obtain some relief which would counterbalance the additional burden he would be called upon to assume. That is an idea which he can readily understand, and to which it is not easy to find a convincing answer.

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In these circumstances it is particularly unfortunate that the Disarmament Conference has adjourned in very unsatisfactory conditions. The resolution which was finally adopted provides no certainty that any effective measure of disarmament will be secured, and the negative attitude towards it adopted both by Germany and Italy is intelligible enough, whether it be thought helpful and wise or not. If this country had given a stronger and more definite lead at any time in the proceedings, a different result might almost certainly have been achieved. It was left to Mr. Hoover to do that, and when his proposals stimulated the Conference into fresh activity, it seemed that the British effort was mainly directed towards blurring its outlines and dissolving its substance in streams of tepid water. If some real advance had been made towards accepting the American scheme, not only would the solution of the debt problem and, therefore, the ratification of the Lausanne Convention, be much nearer than they are at present, but the state of Europe would be far less disquieting. General von Schleicher would not have had the opportunity or felt the necessity of demanding the re-armament of Germany had some solid progress been made at Geneva, and no one acquainted with the present German mentality can doubt that, failing the real disarmament of others, on land and on sea, the re-armament of Germany will be begun. The demand for *Gleichberechtigung* (equality of status) is now overwhelming. Its justice was recognised by the Prime Minister during the Lausanne debate. It can only be met in two ways, of which only the way of disarmament points unequivocally away from war.\*

The moral effects of Lausanne, therefore, which the Foreign Secretary very properly emphasised, were seriously prejudiced by the failure at Geneva. The renascence of a

\* A speech by Mr. Stimson to the Council on Foreign Relations in America on August 8 should reassure nations afraid of aggression. In view of its great importance we set it out in the appendix.

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better spirit between France and Germany has apparently been nipped in the bud once more. It is easy to blame the oratorical excesses which the German elections, like all other elections, have provoked ; but whether there had been an election or not, the same stand on armaments must have been taken by whatever German Government was in power. As a consequence the return of confidence, which was generally expected to flow from the settlement of the reparations question, has not been noticeable on the scale that most people hopefully anticipated. Until the Lausanne Treaty is ratified that can hardly be expected, and it is doubtful whether its ratification can be secured unless the Disarmament Conference achieves tangible results in the meanwhile. The ex-Allied Powers will not ratify, unless they get a satisfactory arrangement with the United States, which American opinion is more and more likely to link with the reduction of armaments. It is even possible that Germany will not ratify, unless some recognition of her claim to equality is given. The outcome of Lausanne is, therefore, not quite so encouraging as appeared at the first blush of agreement after the breakdown of so many international negotiations. But when all this has been said, there is no doubt that it constitutes an invaluable and indispensable starting-point. Without it nothing could have been done. With it, debts, disarmament and all the thorny problems to be set before the World Economic Conference in the autumn become tractable and, therefore, ultimately soluble. We may be truly thankful even if the mercy was smaller than we expected.

With this one important point gained, what of the other essential ingredients to recovery ? Central Europe is the subject of full treatment in another article. It is not a reassuring picture. Distress and disorganisation are making rapid headway. The channels of economic life are being slowly silted up. Austria in the slough of her despond revolts against a loan, which has been offered, because it is felt to be a palliative, subject to humiliating

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conditions. This, too, is a sign of the times. In England and France it is much too readily assumed that in central Europe the great mass of the population is still as comparatively comfortable and contented as are the British and French working people in spite of widespread unemployment. Such an assumption is quite unsound. Misery has cut so deep both in town and country that the ordinary canons of reasoning are always liable to be overthrown by desperation, which may produce incalculable consequences. A few weeks ago the sober mining population of Belgium broke into spontaneous revolt, led by their women, because the constant reductions of wages and the growing insecurity of employment had made life intolerable. In forty-eight hours the country was on the verge of a general strike, which was only averted by the capitulation of the employers and the Government. The Belgian outburst is a symptom not to be ignored. The process of deflation may be economically sound, but socially it is quite impracticable. Hardships which have been borne for two winters may not be borne for three. There is a breaking point somewhere, and it appears to have been nearly reached, not only in parts of Europe but also in parts of America. The veterans and the Belgian miners may find many imitators in the next few months, unless some hope of improvement can be confidently held out.

Fortunately the prospects are not altogether devoid of hope. Recovery must in any case largely depend on the internal situation of Great Britain and the United States. There are some signs that the action of the American Government in balancing the budget, re-establishing confidence in the banking system through the Finance Corporation, and restoring a part of their purchasing power to a proportion of the millions out of work through federal grants for relief and public works is already beginning to produce its effects. It is too early yet to be sure, but the improvement of the stock-market, the tentative rise in commodity prices and the commencement of a return of

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hoarded money to the banks are all symptoms which may herald the onset of convalescence. If the advance is maintained in the United States, it is bound to influence the rest of the world and make the solution of all its problems easier. Similarly the restoration of British financial equilibrium and the success of the Conversion Loan have made a great contribution to laying the foundations of new confidence, even though the fruits of protection have been much less abundant than the advocates of tariff reform foretold.

It may be, therefore, that the World Economic Conference will meet towards the end of the year under far more promising conditions than seemed likely when it was planned in July. In any case, however, it will be faced by formidable problems, which must be solved, if the world is to regain anything like its old prosperity. First of all, monetary stability must be restored, for without it commerce can never move forward with freedom and assurance. The restrictions on the purchase of foreign currencies, which are now strangling international trade in so many countries, must be removed. There must be a concerted effort to lower tariffs everywhere, in order that the circulation of wealth may once more irrigate the world, which is now sinking into a condition of stagnation and poverty. All these aims can only be achieved by international action. As the Economic Committee of the League said in its last report, "no one is still under the illusion that it is possible for a country to improve its economic situation simply by means of the unilateral measures which it considers indispensable." That remedy has been tried by every nation, great and small, without affording it the faintest sensation of real recovery. "The figures are there to show that even the defence of the balance of payments, which is the legitimate concern of each country, is only achieved in a small measure, and at the cost of economic depression and a lowering of the standard of living." The only solution is co-ordinated and co-operative action between nations

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on a large scale in both the financial and economic fields. But there is also a further point. There can be no new prosperity unless the numbers of the unemployed are reduced to reasonable proportions. Of this there is no certainty, even if the world's productive and distributive machinery regains something of its old rhythm. The capacity of production has been so rapidly multiplied since the war that far fewer men can produce far more goods than was the case ten years ago. For proof one has only to look at the Census of Production returns for this country. The statistics of France, Germany and the United States are still more striking. Thanks to the machine, which has invaded the sphere of almost every industrial, commercial and agricultural operation, from banking to milking, from road-making to washing, all the goods and services that society has hitherto been able to consume can now be supplied with enormously less human labour. The alternative seems to be either to employ fewer people on active work and maintain the remainder in involuntary leisure at the expense of the State, or to restore to productivity those who are now eating out their hearts in enforced idleness by enabling everybody to consume more. That is perhaps the greatest problem of all. It is not purely economic. It touches very nearly the lives and fortunes of millions of individuals. If no solution for it is found, if when everything has been tried there are still large numbers of idle men loitering in the streets of every industrial city, there will be no real social stability and no real return to prosperity. It will be the last and the most difficult task of the World Conference, upon which so many of our hopes are now pinned.

## Speech by Mr. Stimson

### APPENDIX

#### SPEECH BY MR. STIMSON TO THE COUNCIL ON FOREIGN RELATIONS IN NEW YORK ON AUGUST 8.

Mr. Stimson, the United States Secretary of State, described the implications of the Kellogg Pact, as understood by the United States Government.

The pact, he said, had changed the whole doctrine of neutrality. War was no longer the concern only of the nations engaged in it, but of every nation in the world. The pact had provided a means for mobilising the opinion of the world against war, and although there was no provision in it for consultation between neutrals, consultation was implicit both in the pact itself and in the use which had been made of it in the disputes between Soviet Russia and China in 1929 and between Japan and China in 1931.

The pact, Mr. Stimson said, had set jurists a new problem.\* During the centuries which had elapsed since the beginning of international law, a large part of that law had developed from principles based upon the existence of war. War between nations was a legal situation out of which rights and duties had grown, and from which there had developed a doctrine of neutrality, according to which a neutral must maintain impartiality between two belligerents. It was contrary to this aspect of international law for the neutral to take sides between belligerents or to pass a moral judgment upon the rightfulness or wrongfulness of the cause of either—at least to the extent of translating such a judgment into action.

Humanitarianism had brought some modifications of the doctrine of neutrality, but their chief purpose was to produce oases of safety for life and property in a world which still recognised and legalised the destruction of human life and property as one of the regular methods for the settlement of international controversies and the maintenance of international policy.

Owing to mechanical inventions and the revolutionary changes in industrial and social organisation by which they were accompanied, however, communities and nations became less self-contained and more interdependent. The populations of industrialised States became much larger and more dependent for their food supplies upon far distant sources. The civilised world thus became very much more vulnerable to war, modern armies more easily transportable, and their weapons more destructive. The laws of neutrality became increasingly ineffective to prevent even strangers to the original quarrel from being drawn into the general conflict, and in the Great War tangible proof was given of the impossibility of confining modern war within any narrow limits. "It became evident to the most casual observer that if this was permitted to continue, war, perhaps the next war, would drag down and utterly destroy our civilisation."

At the Peace Conference at Versailles the victorious nations therefore entered into a covenant which sought to reduce the possibility of war to its lowest terms. Nine years later, in 1928, came the still more progressive step of the Pact of Paris, the Briand-Kellogg Pact [also known as the Peace

\* In connection with the views expressed in the speech, see *THE ROUND TABLE*, No. 71, p. 461; No. 74, pp. 241-2; No. 75, p. 459; No. 77, pp. 18-19.

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Pact]. In this treaty substantially all the nations of the world united in a covenant in which they renounced war altogether as an instrument of national policy in their relations with one another, and agreed that the settlement of all disputes or conflicts, of whatever nature, among them should never be sought except by pacific means.

"The change of attitude on the part of world public opinion toward former customs and doctrines which is evidenced by these two treaties is so revolutionary that it is not surprising that the progress has outstripped the landmarks and orientation of many observers. The treaties signalise a revolution in human thought, but they are not the result of impulse or thoughtless sentiment. At bottom they are the growth of necessity, the product of a consciousness that unless some such steps are taken modern civilisation would be doomed."

Since war between nations was renounced by the signatories of the Briand-Kellogg Treaty, it has become illegal throughout practically the entire world. "It is no longer to be the source and subject of rights. It is no longer to be the principle around which the duties, the conduct, and the rights of nations revolve. It is an illegal thing. Hereafter, when two nations engage in armed conflict either one or both of them must be wrong-doers—violators of this general treaty law. We no longer draw a circle about them and treat them with the punctiliousness of the duellists' code. Instead we denounce them as law-breakers.

"By that very act we have made obsolete many legal precedents and have given the legal profession the task of re-examining many of its codes and treaties."

The language of the Briand-Kellogg Treaty and the enthusiastic statements of its founders, Mr. Stimson continued, had made its purpose clear. "Some of its critics have asserted that the pact was really not a treaty at all; that it was not intended to confer rights and liabilities; that it was a mere group of unilateral statements made by the signatories, declaring a pious purpose on the part of each, of which purpose the signatory was to be the sole judge and executor, and for a violation of which the other signatory could not call him to account.

"If such an interpretation were correct, it would reduce the pact to a mere gesture. If its promises conferred no rights as between the members of the communities of signatories, it would be a sham. It would be worse than a nullity, for its failure would carry down the faith of the world in other efforts for peace.

"But such critics are wrong. There is nothing in the language of the pact nor in its contemporaneous history to justify such an interpretation. On its face, it is a treaty containing definite promises. In its preamble, it expressly refers to the 'benefits furnished by this treaty,' and states that any signatory Power violating its promise shall be denied those benefits. The correspondence of the framers of the treaty shows that they intended it to be a treaty which would confer benefits, which might be lost by a violation thereof."

The only limitation to the broad covenant against war contained in it was the right of self-defence. "This right is so inherent and universal that it was deemed unnecessary even to insert it expressly in the treaty. It is also so well understood that it does not weaken the treaty. It exists in the case of the individual under domestic law, as well as in the case of

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the nation and its citizens under the law of nations. Its limits have been clearly defined by countless precedents. A nation which sought to mask imperialistic policy under the guise of the defence of its nationals would soon be unmasked. It could not long hope to confuse or mislead public opinion on a subject so well understood or in a world in which facts can be so easily ascertained and appraised as they can be under the journalistic conditions of to-day."

No sanctions of force were provided in the pact. It rested upon the sanction of public opinion. "Any other course, through the possibility of entangling the signatories in international politics, would have confused the broad simple aim of the treaty and prevented the development of that public opinion on which it most surely relies," and "which lies behind all international intercourse in time of peace."

Since the ratification of the pact on July 24, 1929, the United States Government had been determined that the new order represented by it should not fail. In October, 1929, President Hoover had joined with Mr. MacDonald in a joint statement at the Rapidian in which they declared that both their Governments resolved to accept the Peace Pact "not only as a declaration of good intentions, but as a positive obligation to direct national policy in accordance with its pledge."

In the summer of 1929 hostilities threatened between two signatories of the pact, Soviet Russia and China, in Northern Manchuria. The United States Government at once communicated with the Governments of Great Britain, Japan, France, Italy, and Germany, and the attention of the Governments of Soviet Russia and China was formally called to their obligations under the pact. Later, when Soviet forces had crossed the Manchurian boundary and attacked the forces of China, 27 nations associated themselves with the United States in urging upon Soviet Russia and China a peaceful solution of the controversy between them. "The restoration of the *status quo ante* was accepted by both parties and the invading forces were promptly withdrawn."

In September, 1931, hostilities broke out between the armed forces of Japan and China in the same quarter of the world, Manchuria, and the situation was brought to the attention of the Council of the League of Nations. "We were invited to confer as to the bearing of the Pact of Paris upon the controversy. We promptly accepted the invitation, designating a representative to meet with the Council for that purpose; and the attention of the two disputants was called to their obligations under the pact by France, Great Britain, Germany, Italy, Spain, Norway, and the United States."

The United States Government maintained its attitude of sympathetic co-operation with the efforts of the Council, and finally, when, in spite of these efforts, Japan had occupied all of Manchuria, it formally notified both that country and China, on January 7, 1932, that it would not recognise "any situation, treaty, or agreement which might be brought about by means contrary to the covenant and obligations of the Pact of Paris." This action was endorsed by the assent of the League of Nations, at a meeting in which 50 nations were represented.

These successive steps could not be adequately appraised unless they were measured in the light of the vital changes of point of view brought about by the covenant and the pact. "They were the acts of nations which were bound together by a new viewpoint towards war, as well as by a covenant

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which made that viewpoint a reality. . . . Under the former concepts of international law when such a conflict occurred, it was usually deemed the concern only of the injured party. The others could only exercise and express a strict neutrality alike towards the injured and the aggressor. . . . Now, under the covenant and the Briand-Kellogg Pact, such a conflict becomes of concern to everybody concerned with the pact. All of the steps taken to enforce the treaty must be judged by this new situation."

"The power of the Briand-Kellogg Treaty cannot be appraised unless it is assumed that behind it rests the combined weight of the opinion of the entire world, united by a deliberate covenant which gives to each nation the right to express its moral judgment." But when moral disapproval becomes the disapproval of the whole world, it takes on a significance hitherto unknown in international law. For never before has international opinion been so organised and mobilised.

Another phase which followed this development of the Briand-Kellogg Treaty was that "consultation between the signatories of the pact, when faced with the threat of its violation, becomes inevitable. Any effective invocation of the power of world opinion postulates discussion and consultation. As long as the signatories of the pact support the policy which the American Government has endeavoured to establish during the past three years of arousing a united and living spirit of public opinion as a sanction of the pact; as long as the course is adopted and endorsed by the great nations of the world who are signatories of the treaty, consultation will take place as an incident to the unification of that opinion.

"The course which was followed in the Sino-Japanese consultation last winter shows how naturally and inevitably consultation was resorted to in this effort to mobilise the public opinion of the world. The moment a situation arose which threatened the effectiveness of this treaty, which the peoples of the world have come to regard as so vital to their interest, practically all the nations consulted in an effort to make effective the great peaceful purposes of the treaty.

"That the pact thus necessarily carries with it the implication of consultation has perhaps not been fully appreciated by its well-wishers who have been so anxious that it be implemented by a formal provision for consultation. But with the clarification which has been given to its significance by the developments of the last three years, and the vitality with which it has been imbued by positive construction put upon it, the misgivings of those well-wishers should be put at rest. That the American people subscribe to this view is made clear by the fact that each of the platforms recently adopted by the two great party conventions at Chicago contains plans endorsing the principle of consultation."

"I believe," Mr. Stimson concluded, "that this view of the Briand-Kellogg Pact which I have discussed will become one of the great permanent policies of our nation. . . . It is a policy which combines the readiness to co-operate for peace and justice in the world, which Americans have always manifested, while at the same time it preserves the independence of judgment and the flexibility of action upon which our people have always insisted. . . . It is only by continued vigilance that the treaty can be built into an effective living reality. The American people are serious in their support and valuation of the treaty. They will not fail to do their share in this endeavour."—(*The Times*, August 9, 1932.)

## THE FUTURE OF INDIA

### I. FORWARD OR BACKWARD

**A**MID the dark clouds of communal rivalry, political faction and civil disobedience, the caravan of Indian constitutional advancement has pushed steadily forward. Now it is crossing a frontier, the border-line between examination and action. The demarcation is not sharp, for whereas investigation must continue even while its results are being put into practice, the period of action has already begun with the establishment of the North West Frontier Province as a governor's province and with the steps taken towards the separation of Burma. With those exceptions, however, we are still in the stage of exploration and of the enunciation of general principles ; and, provided haste is not confused with speed, the faster we can press forward the less time will there be for the development of rancour and faction. The path has not come to the cross-roads ; we have only two choices : to go forward or to go back. The time has passed when it was possible to envisage a mere retention of the present limping diarchical constitution. The alternative to constitutional advance is the reinforcement of military autocracy, a perpetuation of the regime of ordinances on the one hand, and on the other of civil disobedience and terrorism. Such a course would cost us lives and treasure, would call our good faith in question, and would augment the antagonism of political India—a growing portion of the population—whose demands must sooner or later be satisfied. For India herself

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the choice lies, as we have often repeated, between constitution and chaos. If she heeds the voice of the Congress extremists, she has nothing before her but disorder and civil strife ; repression itself could not be continued for ever.

We must, therefore, continue to move forward with as rapid steps as we can, steps which may be either careful and orderly or uneven and unintended. Sir Samuel Hoare's statement on June 27 made it quite clear that the British Government have decided upon a deliberate and not a haphazard progress. The programme that he then laid down may be summarised as follows. After the decision of the Government on the communal problem, the Consultative Committee would reassemble in India and continue to advise on the numerous and important questions entrusted to it. One gathered from the reference to its "final session" that the work of the Consultative Committee would terminate at that stage. Next, the British Government would put forward a definite but not an irrevocable scheme of constitutional reforms, which would be submitted to a joint parliamentary select committee. Provision would be made not only for Indians to give evidence before the committee, but actually to assist in its deliberations. On the basis of the committee's work, a single Bill would then be introduced covering the whole constitutional scheme, that is to say, both provincial autonomy and the institution of responsibility with safeguards at the centre of an all-India federation. Presumably consideration of the Bill would be entrusted to virtually the same select committee as had sat before its introduction. Sir Samuel Hoare gave no dates, but it is clear that the formulation of the Government's draft proposals could not take place before December, nor the introduction of a Bill until, let us say, April, 1933.

To the diehard, of course, this is only to map out a descent of the Gadarene slope, but the really dangerous criticism of the scheme comes from other quarters. The

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official Labour party's complaint—and it unfortunately appears that they are joined by a number of Indian politicians who co-operated with the Round Table Conference—is that the method of free and equal consultation with India has been abandoned in favour of the objectionable "Simon Commission" method of external deliberation and decision. This criticism appears to be based, in the first place, on a misunderstanding of the British Government's intentions, which include the continuation in being of the Consultative Committee so long as it appears to have a useful function to perform, and direct conference with Indian opinion by the parliamentary select committee. Indeed it is obvious that the repetition of full Round Table Conferences has nothing to offer but delay; they were invaluable so far as they went, but they can go no further unless the goal is inaction. Continuous direct consultation with Indian opinion by Parliament—which has ultimately to decide—is, moreover, barred by geography if by nothing else. The second line of criticism is directed against the inclusion in a single measure of constitutional changes in the provinces and at the centre. From the one side comes the plea that this prevents the plan of advancement at the centre from being tested by the experience of provincial autonomy, which would train up India in the ways of self-government. And the opposite faction complain that the proposal delays any constitutional advance until all the obstacles to federation—and they are many—have been overcome. But this is, in fact, a matter on which we have no choice. Not only are we pledged to endeavour to proceed by "one all-embracing Statute covering the whole field,"\* but it is quite clear that even the moderate political parties in India would be prepared to boycott provincial autonomy alone. Moreover, the Government have stated that the single measure is to contain provisions enabling

\* See the Prime Minister's statement at the conclusion of the second Round Table Conference. (Cmd. 3972, p. 5.) Also Sir S. Hoare's speech on June 27 (House of Commons Debates, vol. 267, No. 120, p. 1499).

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the provincial constitutions to be introduced without necessarily awaiting the completion of all the steps required for the actual inauguration of federation.

There is, however, one vital question to which the Secretary of State did not offer an answer—What is to be done with the political prisoners? He legitimately congratulated himself on the reduction of their number that was taking place, but even if they were only three thousand instead of thirty thousand the problem of their existence would not be solved. At some time their return to the normal civil and political life of India must be accomplished; on the other hand, political turbulence and attempts to destroy government altogether cannot be allowed to hinder constitutional progress. The best course for the Government to adopt seems to be as follows: As soon as definite constitutional suggestions are published—before, that is, the actual introduction of the requisite Bill—the ordinances should be lifted, except those necessary for defence against terrorism, and a general political amnesty granted. The resumption or continuance of civil disobedience, it would have to be made clear, would be the signal for a return to the present régime.

Such a measure should be taken by the Government of India as an act of grace, not, under any circumstances, as the result of a compromise or bargain with the Congress party, which cannot be treated as if it represented India. On the other hand, in formulating the draft constitution, it will be essential for the Government to remember that it must somehow secure the co-operation—at worst the passive non-acquiescence—of some part of the greatest, indeed the only popularly organised, political party in India.

## Practical Problems

### II. PRACTICAL PROBLEMS

IN more than one way, from the point of view of Great Britain, this is clearly the most difficult stage of all in India's constitutional transition. Her responsibility for the actual government of India remains unimpaired, while at the same time constitutional changes must be put in hand which weaken her authority in India and are bound to cause civil controversy and even violence. Her responsibility for the constitutional changes themselves can no longer be delayed or shared by the expedient—necessary in the earlier stages—of round table discussion. Moreover, the vital problems which that discussion exposed, but did not solve, have got to be dealt with.

The first of those problems is that of communal rivalry, which has inevitably grown worse as the moment for the assumption of self-government by India has drawn nearer, and which may become still more desperate before the new constitution is inaugurated. The communities themselves utterly failed to reach an agreement—and indeed their several "minimum demands" were mutually inconsistent. In consequence, the British Prime Minister had to take upon himself the responsibility of deciding upon a provisional scheme, so as to prevent the progress of the constitutional reforms being impeded.\*

The second of the great problems that have now to be faced is not one to engender murder and riot, but its solution is no less important and may prove no less difficult than that of Hindu-Moslem rivalry. The whole scheme of India's constitutional development is based on the idea of an all-India federation, including British India and the native States; if that idea fails, we are back at the stage at which the first Round Table Conference opened, that is to say, back to a promise of evolution towards dominion status

\* See the summary of the Government's decision at the end of the issue.

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but with no means of carrying it out. The attitude of the Indian Princes, on which thus the future of British India depends, has since fluctuated with circumstances and with the power of personalities among them like the Maharajah of Bikaner or the Nawab of Bhopal. Somehow they have to be persuaded, quickly so that constitutional changes may not be delayed a month longer than is necessary, to make federation a reality. It is a condition, said Sir Samuel Hoare in the House of Commons on June 27, of the inauguration of the federal constitution that the units concerned must be prepared actually to federate. As there is not in contemplation a dual system of federated plus dissenting members, the Secretary of State's pronouncement might be interpreted as meaning that any single third-class ruler could have a *liberum veto* on federation, but, in fact, if the leading States were co-operating none of the smaller ones would choose to stand out. It is ten or a dozen of the chief potentates who must be satisfied. Now the Indian States are not being coerced into federation against their will. They want federation for two main reasons: first, because they see as inevitable the evolution of British India towards a greater and greater measure of self-government, which they want to have a hand in shaping, so that it does not become a menace to themselves; and second because they are aware of the gradual growth in importance, as part of the machinery of government, of matters like public economic services and customs tariffs, which are already under the control of the Government of India and which they would like to influence themselves. These are powerful motives on which one can rely for a general willingness of the Princes to come into the new scheme. All they ask is a guarantee of their independence in non-federated matters, and of the maintenance unimpaired of their direct relations, by treaties and sanads, with the Crown. There is no reason why these requests should not be granted, provided that on our side certain general conditions were fulfilled. The guarantee must not make of the British Government a

## Practical Problems

barricade against normal constitutional progress in the States or a prop for effete or misgoverning dynasties. Second, if the direct relations of the Princes with the Crown are to be preserved, there must be some constitutional machinery for conducting them and for carrying out the guarantee of State rights. It is plain that neither a government department in Whitehall, even further cut off from the current affairs of India under a régime of semi-autonomous federation than it is to-day, nor the Viceroy in Federal Council, would be competent here. The King, it seems, would have to be represented by the Viceroy in non-Federal Council, advised jointly by the Princes themselves, by representatives of British India, and by the Imperial Government—a division of responsibility which would only be possible if in the last resort the British Government's word were supreme.

That, indeed, is a general constitutional problem not confined to the question of the Princes' relations with the new Indian State. Certain guarantees will have to be given—to minorities, to civil servants and others entitled to pensions—and during a transitional period of indefinite duration further reservations and safeguards will have to be provided. In the general conclusions of the Round Table Conference, the Viceroy and Governor-General appears as the instrument of these functions, but it is clear that he cannot perform them in his individual capacity as representative of the King, and thus constitutional head of the All-India Federation. The Governor-General, in respect of all his duties, must have constitutional advisers. At present he is advised by the Secretary of State (through whom he is finally responsible to His Majesty) and by his Executive Council in India; but under the new circumstances he plainly cannot be advised by his Federal Council on matters reserved from the autonomous federation, nor by the India Office at home, whose control is even now more distasteful to Indian opinion than that of the Government of India itself. A third alternative, that he should be

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advised in his exercise of these important residuary powers by a group of British civil servants and non-official Europeans is obviously equally out of the question. Thus one of the critical problems with which the British Government and the Select Committee will be faced in the next few months is to provide means whereby such part of the present functions of the Government of India and the Secretary of State as are not to be transferred fully to an Indian responsible government can be performed without, on the one hand alienating Indian public opinion, or on the other virtually abandoning the safeguards and reservations.

### III. THE DIFFICULTIES OF FINANCE

THIS problem is raised in a very acute form in connection with public finance. For the time being there must be some form of financial safeguards, if only those inalienably associated with the political reservations. Two vital questions have thus to be answered: how are these financial safeguards to operate, and how in the light of them is financial responsibility for the residue to be made a reality and a concession of value? The latter is perhaps the most important question of all, since no mere constitutional device will solve it, and the whole constitutional system will break down if it is not solved; yet it has been curiously neglected. Diarchy cannot be said to have failed, since no one has propounded any alternative form of constitution which could have brought India through a dozen such years as those since 1919 with equal success, but it has creaked uneasily, above all because the transferred subjects were necessarily stinted of money, and the legislatures were not in a position to raise more. Political and administrative autonomy tended to be dwarfed by financial subservience. Yet those, compared with the present, were prosperous years; how much worse, then, is the position at a time of deep economic depression, which

## The Difficulties of Finance

has struck India, a primary producing country with a vast load of agricultural debt, as hardly as any other land. Unless there is a big rise in prices and a general betterment of trade conditions, we run the risk of handing over with the government of India the choice between a sequence of budget deficits and the bitter process of economies—plus tax-raising—than which there could be no surer guarantee of political turbulence and constitutional breakdown.

The magnitude of the problem must be realised. India is a land of teeming millions, all but an insignificant minority of them living at a standard of life which we should regard with horror among our own people; large incomes are few, and her taxable capacity is very low. The ancient system of land revenue, for centuries the foundation of India's fisc, has become quite inadequate to support the modern machinery of government and the social services that she demands with increasing determination. Even on the assumption that the present depression will end and that there will follow a period of reviving trade accompanied by a gradual increase of prices, the Federal Finance Committee (which reported last March) calculated that the combined prospective deficits of the provinces would total nearly 4 crores (£3 million). Even their scheme for the distribution of 5 crores of income tax proceeds among the provinces would leave three of them (Bengal, Assam, and Bihar and Orissa) with prospective deficits. In these circumstances the kind of strict financial safeguards that was in question at the first Round Table Conference—the reversion, for instance, into the hands of provincial Governors of certain administrative and fiscal powers in the event of the continuance of budget deficits—seems rather out of the picture. It must be remembered, too, that the provinces are responsible for the “nation-building” heads of public expenditure to which political attention is bound to be more and more devoted. Of Bengal, one of the centres of agitation for Indian self-government and social advance, the Federal Finance Committee write that its

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prospective deficit, after allowing for possible economies, "can only be wiped out at the expense of other provinces, and even so the presidency would be left with no margin for financing new policies."

When we turn to the centre the position is no more hopeful. On the basis of existing taxation the Federal Finance Committee forecasted a future surplus (on the assumptions as to economic recovery mentioned above) of 4½ crores, but this would be more than wiped out by the contributions to provincial revenues from the yield of income tax. The imposition of an excise tax on matches would leave the centre with an estimated surplus of 2 crores (£1,500,000), a margin which the Committee deemed barely sufficient to cover contingencies such as the inevitable cost of installing the new constitution. The problem of federal finance is not, however, primarily the same as that of provincial finance—expanding outlay coupled with inadequate and inelastic revenues—but rather the problem of the vast first charge on the central public income. Of the 80·1 crores (£60,075,000) of expenditure provided for in the Percy Committee's forecast of the federal budget, as much as 47 crores (£35,250,000) would go to the military budget, 17·75 crores (£13,312,500) to debt services (mostly sterling debt), and 2·65 crores (£1,987,500) to pensions (also payable for the most part in sterling).\* These items total 84 per cent. of the whole estimated expenditure of the federal government, excluding grants to self-governing provinces. That is, of course, a misleading way of stating the position, since in all federal systems, in the United States for instance, those are the principal charges on the central revenues, the greater part

\* The Indian States Enquiry Committee (Financial) estimate that their recommendations would impose on federal revenues an ultimate gross burden of approximately Rs. 1 crore per annum, additional to that borne by the central revenues of the Government of India to-day, though this figure would be liable to a substantial reduction if certain proposals of the Committee with regard to set-off and immunities are adopted. (Cmd. 4103, p. 179.)

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of general administrative expenditure falling on the units, and since the self-balancing revenue and expenditure of State enterprises (posts and telegraphs and railways) have been excluded from the total budget ; but the point is that from the standpoint of the Indian legislatures these items, are, for one reason or another, unalterable. Moreover, in political affairs it is often what things seem rather than what they are that counts, and to the Indian politician these first charges on the revenue of the country seem an enormous, and to many an intolerable, burden with which to load a new political venture.

It is the great proportion borne by the expenditure upon it to the total federal outlay that renders the problem of the army so difficult. Indian politicians, always excepting the extreme type, realise and openly admit that India must have an army on something like the present scale, and that so long as the personnel is largely British (as it must be for one reason, because of its part in connection with communal riots), control of the army must remain vested in some way or other in the British Government. There can be no doubt in anybody's mind where the final responsibility for the Indian army must stay, for the present at any rate. But when it comes to providing the money, and when the 47 crores of the Committee's estimate turns out to be nearly 60 per cent. of the federal budget, then the trouble begins. How can these essential supplies be assured ? In general, and without any attempt to formulate precise schemes, there are two possible answers. The first is the assignment of particular revenues for an independent army budget, the surplus, of course, to go into the general funds of the federation ; the second is to impose a fixed guaranteed charge on the general budget, which could in some way be certified by the Viceroy if it were not otherwise forthcoming. In either of those possibilities there are serious disadvantages. The first implies a dual system of tax-collection and fiscal administration, with the attendant wastage of governmental effort ; on the face of

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it, indeed, it is quite impracticable under the existing circumstances of India, since the whole of the customs (the principal source of federal revenue) are estimated to yield only 3 crores more than the cost of the army, which means that in a bad trading year the yield might very well fall far in defect of what was necessary. Nor is Indian opinion likely to accept as a reasonable measure of self-government a constitution which left in British hands the responsibility, let us say, for the customs—including the vexed question of protective tariffs—and the salt tax. As for the second choice, certification is a real power when the whole administrative and financial machinery of government is ultimately under the authority of the Viceroy, and when majorities can be manufactured in the assemblies by means of official blocs ; but under a system even of restricted self-government it is meaningless unless it implies the possibility of a virtual resumption of the reins of government by Great Britain.

Expressed in those terms, the problem is utterly baffling. But it is well to remember, in attempting its solution, that if those responsible for the government of India under the new régime were to wish to boycott the army and to oppose by any means the interference of the British Government in their country's affairs, then the most careful constitutional safeguards would be powerless to prevent them. Not merely could they find ways of withholding supply, but by refusing the co-operation of the transferred services (railways and the post office, for instance), they could gravely handicap the ordinary administration of the army in time of peace, and bring it to a standstill in time of war. Thus, if we are talking in terms of reservations at all, and not in terms of complete independence for India, we must assume that the general constitutional system—including the extent of the franchise and the proportion of power given to minorities and to the Princes—will be such that the new Government will be prepared willingly to accept the reservations and will be animated by a spirit of

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general goodwill towards Great Britain and her works. In order to secure that goodwill as regards the army, it is necessary that expenditure be kept within strictly the lowest limits, that Indianisation of the personnel be carried on as fast and as far as possible, and that Indian representatives be associated in the closest practicable way with the control of the army. On that assumption, then, there seems little alternative to charging upon the federal budget, by way of a financial settlement collateral with the constitutional reforms, a fixed charge for the army, say 45 crores, which would be reviewed after a period of years and which would have to be regarded as a maximum compatible with continuous efforts at economy.

The problem of the national debt is in some ways simpler than that of the army but it may prove more difficult to solve for a reason unconnected with India's particular constitutional crisis. Owing to the fall of commodity prices in the past four years, almost every government in the world, local and national, is overloaded with debt. If prices are somehow caused to rise again to a level more nearly approaching that at which the debts were contracted, then the problem will doubtless solve itself, and in that case the question of India's debt will not present greater difficulties to the constitution-makers than many another issue. Indeed in some lights India appears much more favourably situated, as concerns national debt, than most other countries. At March 31, 1931, the total debt of the Government of India, after deducting liquid assets, was rather less than 1,183 crores (£887 million), including, *inter alia*, the railway debt and the balance of the war contribution. This is a nominal figure, on which the over-all rate of interest was 4.29 per cent. Against this the Government held assets valued at 1,063 crores (£797 million), chiefly the capital, as debited in the accounts, of the commercial departments of government, but including also interest-earning debts due from the provincial governments, and State and military property generally; and,

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besides, certain assets that defy valuation. The Federal Finance Committee, therefore, was able to report that if the federal government assumed responsibility for the whole of the pre-federation debt its obligations would be covered by the assets also taken over. It must be noted, however, that the valuation of the assets is far from being a commercial one based on yield, and that practically the only identifiable income obtained directly from them is the sum of 5 crores (₹3 $\frac{3}{4}$  million) appearing in the "standard" budget as the net contribution of the State railways, compared with a total net federal interest burden of 17 $\frac{3}{4}$  crores (₹13 $\frac{1}{4}$  million).

But suppose that prices should continue to fall and that payment in full of the services on the Indian debt becomes impossible, what would then be the position?

There has been more than one official statement with regard to India's credit. Mr. Ramsay MacDonald (in the House of Commons on June 26, 1931) made one about the transition period. It will not, he said, be possible to introduce the proposed constitutional changes if financial stability is not assured, and "His Majesty's Government is determined not to allow a state of things to arise which might jeopardise the financial stability and the good government of India, for which the Secretary of State is at present responsible." He undertook—

if the need arose, to apply to Parliament for the authority necessary to enable them (the British Government) to give financial support under suitable conditions to the Government of India for the purpose of maintaining the credit of the country pending the settlement of the constitutional problem and the formulation of provisions which will ensure the maintenance of India's credit in the future.

As regards the future then, after the new Indian Government has assumed control, our duty would seem to be fulfilled when we have embodied in the constitution provisions of the kind contemplated. But the question still remains, what is to be the nature of these provisions, and must they include safeguards? Mr. MacDonald was

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referring to Indian credit generally, but on the specific question of Indian sterling loans we have the view of the former Secretary of State for India, Mr. Wedgwood Benn, in a letter\* to a correspondent, at the time when uneasiness was caused by the wild talk at the Congress meeting at Lahore. This letter pointed out that "Indian sterling securities, while issued under the authority of Act of Parliament and charged on the revenues of India, are not guaranteed by the British Government." They are trustee stock, but that is a separate question. The letter refused to deal with hypothetical contingencies, but, it continued:—

I am directed by him (the Secretary of State) to say that His Majesty's present Government have no intention of allowing a state of things to arise in India in which repudiation of debt could become a practical possibility, and that it is inconceivable to him that, in dealing with any scheme of constitutional change in India, Parliament could fail to provide safeguards, should they be needed, against a breach of the conditions under which these loans were issued.

Safeguards then were contemplated, but of what kind? Those who at the Round Table Conference urged the introduction into the constitution of safeguards in respect of Indian debt services presumably intended to obviate such a contingency as, say, an uncontractual reduction of interest. If India should ever be driven to such special expedients, what would the position be? During the transition stage responsibility and control will still rest with the Secretary of State and Parliament, but the position under the new dispensation is more obscure. In general the Indian federal legislature will then have charge of the budget and the national finances. What form could safeguards take in these circumstances? Would the British Government make good the loss to the bondholders, or will power be retained for it to interfere directly with India's finances in some way, and would the retention of such a power be compatible with the exercise

\* See *The Times*, January 28, 1930.

## The Future of India

of the responsible government that we are bound to endeavour to set up in India? Lastly, would we in a similar case be prepared to apply to India measures of recovery such as those already used against the Free State?

These questions have got to be faced, but a more general issue has first to be settled. The political destiny of India is bound up with her economic destiny, and her economic destiny will be determined in part by world forces and in part by her own efforts. As these lines are read the outcome of the Ottawa Conference in concerting measures for the economic improvement of the British Empire, not only through tariff preferences but also through monetary co-operation, will be known. India's part in those measures, however, is bound to remain equivocal until her new constitution is decided upon, for the degree of her freedom in future to choose whatever economic course she pleases has still to be determined. She might wish to cut loose the rupee from the pound, to fix a different sterling ratio, or to remonetise silver. Are her new rulers to be restricted on these vital issues, and if so by what means and with what justification? These are urgent questions to which some answer must be found within the next few months.

## OTTAWA: INTERIM REFLECTIONS

BEFORE this is read the outcome of the Imperial Economic Conference will long have been known.\* Even with difficulties and divisions as sharply in the foreground, as they are after ten days in Ottawa, failure remains as unthinkable as it was when the opening speeches expressed the high hopes of every part of the Commonwealth, though the measure and the kind of success remain in doubt. The issues, at any rate, are clear—the willingness of Great Britain to compromise her foreign trading connections, and perhaps to increase the cost of the necessities of life for her people, by imposing, increasing or maintaining tariffs on foreign imports of primary products, among which meat presents the greatest difficulties; the willingness, on the other hand, of the Dominions to weaken the established position of some of their industries by substantially liberating the trade in manufactures within the Commonwealth; the clash of interests, on the monetary side, between those countries whose advantage lies in the maintenance of a high or at least a stable relation of exchange with gold standard currencies, and those for whom the raising of prices, accompanied if possible by stability within the "sterling area," must be accomplished somehow even at the cost of greater instability in its outer relations. Whether on the issue of money or on that of tariffs, the British delegation has always one great *arrière-pensée*, namely, the danger of injuring the great and vital intercourse that Great Britain has with foreign countries, in the fields of finance, capital investment, shipping and other services as well as in commodity trade. From the very start Mr. Baldwin made it plain

\* This article contains some reflections by a correspondent on the tendencies revealed during the first part of the Conference. We propose to deal with the final results in our December issue.

## Ottawa : Interim Reflections

that a condition of the enhancement of our tariffs on foreign goods must be a genuine move towards freer trade within the Empire. Mr. Runciman, no doubt, is the pillar of this policy of freer trade through Empire agreements, but he could hardly have expressed it more emphatically than did the Lord President in his declaration on behalf of the United Kingdom Government on July 21, nor is there any reason to believe (*pace* the journals of Lord Beaverbrook, whose outrageous attempts to interfere in the Conference have shocked the assembled representatives of the Empire) that the British delegation has ever been divided on the subject.

It is upon that sandbank that the Conference has, for the moment, grounded, as this is being written. After the first expressions of national policies had been pronounced, the early days of the Conference have been occupied with the emergence of the Dominions' requests for help from the Mother Country, sometimes singly, sometimes in concert, upon wheat and meat and timber and tobacco and fish and fruit and base metals and many other of their products, by way of tariffs or quotas or a ban on imports from specially damaging competitors like Russia. This procedure, though doubtless inevitable, has been unfortunate in that it has put the United Kingdom representatives in the position of saying nothing or no, in the apparent absence of any complete policy of their own or any firm offer to the Dominions. But Great Britain's plan at this stage could not have been certain or complete, since her ability to grant the Dominions their requests must depend on their willingness to accord her manufactures more liberal entry to their markets, and since the Dominions themselves have been reluctant to propose concrete suggestions on that point. The improvement of trading conditions that Great Britain asks in respect of manufactures cannot be contained in a simple formula comparable, for instance, with a 20 per cent. preference on butter. Many hundreds of groups have to be considered,

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and naturally the conditions of their import and internal manufacture vary enormously between the different Dominions. Four or five months ago schedules of commodities which the British Government, advised by its experts and the representatives of industry, thought might be exported in greater quantity to Empire countries were circulated to the Dominions, but replies have been extremely tardy and even now are only just being presented ; hence the absence, at this stage, of any specific and detailed British plan to match the Dominions' simple requirements.

The avoidance of bargaining which many hoped would characterise this Conference could not, of course, long be maintained in its integrity. What each country can put into the pool of common advantage depends in the last resort on what contributions are to be made by the others. Thus a barter of benefits at once begins, and in making clear its own limiting terms of exchange each country inevitably touches upon the susceptibilities of others. Mr. Bruce, for instance, in arguing with some acerbity that so far Great Britain had given the Dominions no more than a reasonable return for the trade advantages that they had accorded her for many years, and that, if she really meant to assist them and to secure from them further modifications of their tariffs in her favour, she must grant them more and larger preferences, provoked a sharp retort from the United Kingdom delegation. After showing statistically the advantages enjoyed by the Dominions in the British market, and their consequent favourable balances of trade with the United Kingdom, the statement pointed out that in assessing the value of a preference the percentage of duty charged on the value of the article is of equal importance with the preferential margin. The delegation urged upon the Dominions " that the rates of duty charged should be so graduated as to give the products of the United Kingdom a reasonable chance of competing on even terms, and that the rate of duty against United Kingdom products should be fixed for protective purposes

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no higher than is necessary to give a reasonably efficient industry in the Dominion a fair chance." Unfortunately the voice of reason that is to measure efficiency and the chance of even competition is dim and confused. The extent of protection enjoyed by industry as a whole, through its effect on costs, influences the measure of protection required by any particular industry. Under her system of high protection, for instance, many of Australia's industries barely compete on level terms with British producers in spite of tariff defences which to us seem extravagant. Similarly, no doubt, Canadian manufacturers would claim that their present mead of protection was the least necessary to ensure equal competition with countries with depreciated currencies and lower wage standards. There, indeed, rather than in the food tax issue or in the Russian bogey, lies the real crux of the problem of Ottawa, on which will turn the realisation of its inspiring ideal, the progressive freeing of trade within the British Commonwealth.

Still less of positive decision has been achieved in the first ten days on the monetary side. The most striking feature, perhaps, of the opening speeches was the great importance attached by Dominion spokesmen to this part of the Conference's work. Mr. Coates in particular made it clear that unless by some means the prices of primary products were soon raised, the mere widening of New Zealand's potential markets would be of little value, and he explicitly challenged the Chancellor of the Exchequer to declare a reflationary policy, which would be adopted by the British Government and the Bank of England in an effort to secure the progressive restoration of the price level; while Sir Atul Chatterjee showed unmistakably that not for nothing had India sent out as delegates two of the most outstanding financial experts of the Conference, Sir George Schuster and Sir Henry Strakosch. These two countries would probably be the first in the British Commonwealth to find it necessary to depreciate their

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exchanges relative to sterling as a means of readjusting their internal price systems, if no way were found to raise prices within the whole sterling area. On behalf of South Africa, on the other hand, Mr. Havenga uttered a reasoned and moderate defence of the gold standard, and many of his arguments would apply with equal force to Great Britain, for whom stability of international exchanges, outside as well as within the sterling area, is almost as important as a rise of world prices. At any rate, so far Mr. Chamberlain has not granted the assurance that was demanded of him, refusing to commit Great Britain to a measure of inflation which it might prove impossible to carry through without an excursion into unsound public finance. One reason for this refusal is reputed to be the fear that a rise of prices in Great Britain would be blamed on protection, but there is a sounder argument in the uncertainty at this moment as to what is to be the course of monetary events outside the Commonwealth. Money is flowing into the United States, where security prices are rising and where there are signs of a revival of public confidence and purchasing power. An inflationary development in the greatest gold standard country might change the whole face of monetary circumstances, and the possibility of it fully justifies present caution. It is at once a handicap and an advantage that the Ottawa Conference is taking place at a time of such disturbed economic conditions. Decision is rendered the harder, but the necessity of brave decisions is the more keenly brought home to every responsible statesman.

Ottawa.

July 30, 1932.

## THE TRAGEDY OF JAPAN

FEW countries have been so profusely described as Japan, and few so profoundly misunderstood. A country so remote naturally invites attention, but usually it stimulates the pens of those writers who deal in the picturesque, the mysterious, or the startling. It is true that her intricate language and strange history form a barrier against easy comprehension ; but her situation is clear enough to those who will take the trouble to examine it without prejudice, and to pay attention to processes rather than to isolated and often transient phenomena. It is for this reason that, in the following pages, an attempt has been made to relate present cultural conditions to past history, and to show how those conditions may react upon foreign policy.

### I. THE EFFECTS OF SECLUSION

WE do not know very precisely the composition of the Japanese race, but we can be pretty sure that it includes Mongolian, Polynesian and (through the Ainu) Caucasian elements, a blend surely without parallel in ethnology. One would expect a people with such a racial heritage to play an important part in the world's history, a part determined by vigour and versatility ; and yet, looked at with an unromantic eye, their progress through the centuries may be read as a tragedy rather than a triumph. Such an unexpected destiny cannot be simply explained, but there can be little doubt that the history of Japan has been in a large measure determined by her geography. Given such promising racial material, those temperate islands ought to have nurtured a people fit for every adventure of the body and the spirit ; but, remarkable as their achievements have been, it seems that their free growth

## The Effects of Seclusion

has always been thwarted by their topographical relationship to the Asiatic mainland.

The early recorded history of the Japanese shows us at the dawn of the Christian era a fairly homogeneous people composed of loosely organised clans ; if not pugnacious, certainly warlike ; not barbarous, but culturally somewhat backward, and depending for their cultural advance upon knowledge gained from the Asiatic mainland, where the great Han empire was at the zenith of its power. It is to be noted that cultural influence from China could only operate at a distance. The insular position of the Japanese, though it doubtless saved them from the imperialist ambitions of the Han emperors, limited the possibilities of cultural contact. The position of England, an island on the edge of the European continent, has often been compared to that of Japan in relation to Asia. But the analogy is misleading. It is to-day eight hours' steam across the Straits of Tsushima to the nearest point (which is in Korea, and not in China) whereas it is a bare twenty miles across the straits of Dover. The difference is important. Even had the Chinese or the Japanese been better navigators than in fact they were, their intercourse was bound to be thin and discontinuous. So it was in the first few centuries of our era ; and so it remained even when, from about the year 400, Japan, now a centralised State, began to send embassies to the Chinese court, and missions of scholars to acquire new learning. The dangers of shipwreck, the difficulties of language, and perhaps some instinctive fear of the strength and size of China, combined to keep their intercourse on a distant, impersonal footing. There was some going and coming of monks and traders, a certain immigration of experts from Korea, and also, though rather less, from China ; yet, on the whole, there was no real contact, much less a fusion of races or cultures. Contrast this with the experience of England, subject to wave after wave of cultural invasion from different parts of the European continent, and even ruled by monarchs who claimed the throne of France.

## The Tragedy of Japan

It is not surprising then to find that, though the Japanese earnestly strove to adopt the civilisation of their neighbours, they paid a heavy price for their insulation, for they were thrown constantly upon their own resources, and were in the position of an earnest young man who has educated himself by correspondence, but has been deprived of the stimulus of direct association with other minds. From about A.D. 500 they adopted the Buddhist religion, and soon they took over, almost without change, the administrative system of China, and also applied to their own language the Chinese script. These were remarkable and praiseworthy efforts to improve themselves, for it is to be observed that they availed themselves voluntarily of what China had to offer, and were not at all in the situation of the inhabitants of the British Isles, upon whom one culture after another was imposed by conquering peoples. But, for that very reason, the cultural metamorphosis was never complete. In reading Japanese history up to about A.D. 900, one cannot escape a feeling that the borrowed culture was not assimilated, but laid upon the surface ; and that, though in many respects it made for material and moral advance, it acted on the whole as a check to free development. This judgment is confirmed by later history. Most of the borrowed political principles proved unworkable and perished as atrophied forms which only clogged the growth of native institutions. In the end, the conflict between Chinese theory and Japanese sentiment resulted in disastrous civil war and the establishment of a militant feudalism. Perhaps this was an orthodox development which would have taken place in almost any circumstances, an inevitable phase of social evolution ; but certainly it is directly traceable to the fact that the imported culture tended to repress the vigorous part of the native character, and that the feudal strife which, with very little intermission, followed from about A.D. 1100 to 1600 was, in essence, a revolt of the Japanese against Chinese civilisation, as it had been transplanted in Japan, its formalism, its pedantry, its general unsuitability to their lively temperament. This is not to

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pass judgment upon Chinese culture, but merely to observe that what the Japanese had borrowed was only certain outward forms of Chinese civilisation, proper to Chinese soil and circumstance, but of necessity diluted and distorted in their passage across the sea. Indeed, it is doubtful whether a culture can be transmitted from a distance ; or, if it can, whether it in truth confers a blessing upon its recipients. Material advantages the Japanese certainly gained from China, such as a knowledge of useful arts, of which writing was the most important, and of Indian and Chinese philosophies. But these they could have acquired without imitation of other Chinese models ; and though we cannot balance imponderable values we may at least conclude that the power and prestige of China obliged the Japanese to take over, along with some profitable knowledge, some very uncomfortable doctrines and customs. The mediæval Japanese seem to have felt uneasy on this score, to have considered that they had, perhaps, swallowed more than they could assimilate. About A.D. 900 they brought diplomatic relations with China to an end, which means that they no longer regarded China as the fountain of civilisation, and thought that they could stand on their own cultural feet. The situation thus created was remarkable, since it showed that the Japanese were attempting to develop in isolation ; truly a bold experiment, if, as we may suppose, a nation, like an individual, cannot grow and flower without fertilising influences from outside. It might be argued that by A.D. 900 the T'ang dynasty of China was nearing its fall and there was nothing which the Chinese could at that time teach Japan. If that is so, then it was all the more unfortunate for Japan, so situated that her only neighbour was unable to provide her with stimulus and example. In point of fact, intercourse between China and Japan did not cease with the cessation of diplomatic relations, for there was some trade, some interchange between scholars ; but, on the whole, it is true to say that for several centuries after the year 900, Japan led a secluded life. During those centuries, her own

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institutions underwent many changes. She modified or replaced many of her Chinese borrowings, she developed Buddhism on peculiarly national lines, and she made creditable advances in the arts ; but all her activities were confined within her own borders, and it is not to be wondered at that she thus evolved, by turning in upon herself, a unique, but extremely limited, culture.

The contrast with China is striking. From Han times at latest, that self-sufficient country had been in regular intercourse with western Asia, and in indirect trade relations with Europe, while by the seventh century, Chinese traders and monks had worn ancient tracks overland to India, Chinese vessels had sailed probably as far as the Persian Gulf and Roman envoys had appeared at the Chinese court. It may be true that external influence did little to modify the powerful individuality of Chinese culture, for China seems always to have regarded herself as the centre of the universe, the sole source of wisdom, but equally it may be said that one of the essential characters of her culture was its capacity to absorb and assimilate foreign elements. In this respect her history is one of vast sweep and variety. Its scale is prodigious. The Han empire extends to the Caspian. It crumbles, and China is ruled by Turkic sovereigns in the north. Then follows an age in which Indian religion spreads all over Chinese soil; a new Chinese empire arises. But T'ang China must struggle to defend herself against Arabs in central Asia, and nomadic peoples in the north, and soon she withdraws within narrower frontiers, both physical and intellectual. There follows political chaos, leading to the Sung renaissance of the tenth century, a powerful reintegrating movement, which restores ancient Confucian tradition, but gives it a new life and a new significance. China has regained cohesion. So much so that her Mongol conquerors in the thirteenth century, speedily subdued and chastened by her institutions, serve as a medium for the spread of Chinese culture over the Mongol empire. Soon the Mongols withdraw. The Ming emperors rule China for peaceful

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centuries until their misrule brings the Manchus into power, and from about A.D. 1700 the empire again stretches towards its old distant borders.

This is a history of spacious rhythms, of the ebb and flow of great races ; and even if we allow that the Chinese preserved unchanged the essence of their aboriginal culture, we must admit that its shape and substance were determined in a large measure by alien influences, whether they were absorbed or whether they were merely resisted. It is effort, strife, perilous contact with new forces, that gives to a civilisation variety and strength.

To the Japanese these harassing but salutary experiences were denied. Left to themselves, they developed their own metropolitan culture, which was of Chinese parentage, to the point of exhaustion. It was local and partial, and it languished because of its own futility, while the more vigorous elements in the Japanese people spent their energies in civil war. The feudal struggle lasted with brief intermission until about A.D. 1600. During that long period Japan twice came near to entering the main stream of world affairs. In 1274 and 1281 Kubla Khan attacked her shores, and she might thus have been brought within the orbit of the Mongol empire which then stretched into Europe ; but the invaders were beaten off and Japan once more withdrew behind her own cultural frontiers. In her subsequent history, it is easy to perceive a certain restlessness, a dissatisfaction with her restricted opportunities. Japanese vessels began to make long voyages, commercial intercourse with Asiatic ports grew closer, and new intellectual currents flowed from China under the Ming dynasty. By 1500, Japan was in a fair way to taking part in world movements which were impelling the ships of Portugal, Spain, the Netherlands and England over all the oceans and bringing distant continents together. By 1550, Europeans had landed in Japan, by 1600 the Japanese knew a great deal about Christianity and firearms ; and even a wise prophet might then have foretold that Japan would soon partake in the new world-wide traffic of goods and

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ideas. Yet the prophet would have been wrong. The Japanese had always liked foreign goods, and they had welcomed foreign ideas so long as they might ponder upon them in seclusion. But it was of the essence of this new enterprise that it could not be conducted in solitude. It needed either partners or antagonists ; and such conditions were unpalatable to the rulers of Japan. They, after all, had by now reduced the feudal chaos to some sort of order ; they were firmly enough seated in the saddle ; they had long experience of the arts of government and they may well be excused for concluding, once they had grasped the significance of militant religion and colonial adventure, that they were best left to themselves to exercise their traditional skill. So they paid the price of isolation, and from about 1650 they cut themselves off from the world. It cannot be proved that they made here a great political blunder, though it is arguable that no harm would have come to Japan had she taken the risks of contact with foreign nations. But the effects upon her cultural development were profound, and almost certainly in the long run adverse.

### II. THE GRIP OF THE PAST

IT may be argued that their long period of rest and incubation prepared the Japanese for the strain of adopting Western civilisation in the nineteenth century, and it is no doubt true that in the protracted peace which began in 1615 there were stored up reserves of energy which proved of great value when the Japanese decided that they must race after Europe and America. From 1615 onwards they had settled down to ruminate over their own culture, and they had produced little but elaborations of their own refinement. Learning, the arts, government, trade, either languished or uneasily craved new outlets which were denied to them by the restrictions that Japan had placed upon her own development. In the eighteenth century she was both economically and culturally feeding upon herself,

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and she might well have starved in the process had not her own vitality forced her to burst her bonds. It is not surprising, then, to find her from about 1850 ardently adopting the civilisation of the industrialised Occident, and to all appearances rapidly striding towards success. In the common estimation she has to-day so fully and competently followed the Western pattern that she ranks among the strongest of the nations. Yet even her friendliest critics find some ground for misgivings, some reason for wondering whether in truth her development has been so rapid or so sound as it at first sight appears. We need not here consider whether the occidental pattern was worth following, since it seems certain that for good or for evil the industrial society must absorb all types of culture. But it is useful to enquire how far Japan has adapted herself to her new framework. When in 1868 she restored her monarchy and entered the modern world she was heir to a civilisation which was unique but which could thrive only in seclusion. The energy with which she attacked her new problems had been stored up during a long period of quiescence, but that same period was also one of repression, of inhibition as well as of rest ; and perhaps this explains why the civilisation of the industrial Occident was taken over with much vigour and little discrimination.

All the material features of this civilisation were speedily appropriated. Where industry and determination were needed they were forthcoming. Long political experience had enabled the leaders of Japan to provide a background of peace and order for their experiment, and feudal discipline ensured an obedient, laborious populace. It was not difficult to lead in the chosen direction a people so homogeneous in race and so uniform in experience. But to say that their acceptance of foreign institutions was unquestioning is to say that it was uncritical ; and there are many signs to show that the burden which Japan shouldered in those days was heavier than she knew. Once before, in the seventh century, she had taken over the apparatus of a foreign social order and had found by

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experience that she could not make it work. This failure did not seem disastrous because she was then able to cut loose from her teachers, digesting such lessons as she could and rejecting the remainder. But when she adopted a Western way of life, she was bound to keep it up. The choice was final, for our industrial civilisation is born of the traffic between peoples ; it is a confederation, however loose and uneasy, and those who are not its members are its slaves. But, with all its flaws, our civilisation has grown logically out of our own history and each people in Europe has contributed something to its present character. There are centuries of European thought and habit behind its simplest manifestations, whether good or evil. Surely the Japanese were undertaking a perilous and difficult task when they set themselves to reproduce that civilisation without repeating the processes by which it was formed ? Has not the divergence between their traditions and ours led to inevitable disharmonies in their lives as a nation and as individuals ? How and when are these disharmonies to be resolved ? These are questions which present themselves constantly to any thoughtful observer of Japanese life, and, though the answers lie hidden in the future, some instruction may be gained from elaborating the questions and relating them to observed facts in the present and the past.

First perhaps comes the problem of the reaction of the individual Japanese to foreign persons and foreign things. A Japanese in intercourse with a European (and here for convenience European may be used to include American) cannot help feeling a sense of racial difference. An Englishman, however insular, knows or feels that another European is of his own stock, and (to take an easy test) has no deep-seated prejudice against, let us say, an Anglo-French or an Anglo-German marriage. But a Japanese must always feel that in intercourse with Europeans it is he who must give up something of his own individuality. He must speak the Europeans' languages, accept their standards, even eat their food and wear their clothes. Usually he is

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very ready to do these things, being rather proud to exhibit his adaptability ; but beneath his courtesy it is not hard to detect an effort, and sometimes even a certain resentment. It is rare for acquaintanceship between a Japanese and a European to develop into intimacy. The barriers are almost insuperable. There is the prime barrier of language, for the number of Europeans with a fluent knowledge of Japanese is negligible and the Japanese themselves are poor linguists. There is the barrier of custom, for the personal life of most Japanese is governed by a habit and a morality often mystifying and sometimes repugnant to the European mind. The Japanese have not yet escaped from the feudal tradition, and the virtues they most admire are those which promote the welfare of the group rather than that of the individual. To a Japanese the European seems loud and egotistical ; to a European the reserve of the Japanese seems a stupid want of frankness and their self-sacrifice on the altar of the family or some larger group often a wanton repression of personality. Their best friends have to admit that the Japanese are lacking in spontaneity, and one who has dealings with them is usually irritated by their caution and secretiveness ; characters which he is tempted to ascribe to slowness of wit rather than to astuteness. Whether these mutual criticisms are valid or not, the fact remains that association between Europeans and Japanese is generally conducted at the cost of strain upon both parties. The reasons for this incompatibility seem tolerably clear. There is very little common intellectual territory. It was easy enough to replace the *jinrikisha* by the Ford car, but it is not possible in a few decades to substitute for the inhibitions of a sequestered feudalism the European mental habit, which is by contrast speculative, lively, individualist and cosmopolitan. Yet those who have come into contact with Japanese in Europe will probably protest that they have gained an altogether different impression of their character. The Japanese, it will be said, show themselves gay, friendly, nimble-witted, interested in everything. They appear to subscribe

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freely to European standards and to be marvellously at home in their European environment. All this is true. Delightful young men proceed to Oxford or Cambridge, where they lead extremely English lives. Charming diplomats cut an elegant figure in foreign capitals, where they are admired for their social gifts. Scholars attend conferences abroad and make a good impression upon their foreign confrères. Yet when they return to Japan there can so often be observed a gradual lapse. The frankness and the gaiety disappear, to be replaced by grave and formal courtesy. Their environment gets hold of them, they are the victims of a cruel social pressure and they are in the grip of a powerful nationalism. If this is true of those small numbers of Japanese who travel abroad, how slight must be the effect of European culture upon those millions who know it only by hearsay or through its less admirable external features.

The truth is that European culture has touched only the surface of Japanese life, and though it is open to any Asiatic critic to challenge the superiority of European culture, it is extremely doubtful whether any people which chooses to base its life upon mechanised industry and foreign trade can preserve its own culture intact. It is indeed probable that its survival must depend upon the measure of its adaptation to world-wide standards. It may be that a country so vast in bulk, so self-sufficient as China can select from European culture such elements as seem to suit her, and incorporate them in her own economy ; but it is very doubtful. Japan, certainly, cannot do this. Her traditional culture, as we have seen, is one which depends upon insulation. It is a delicate forced plant which must shrivel under the rude winds that blow about the modern world. Politically it is already an antiquated survival, a brave attempt to perpetuate the age of myth. The Emperor is of divine ancestry, his subjects are his children, and his statesmen still believe that the people should be obedient and virtuous. They cling to the feudal regimentation of society, they deplore the need to improve the status of

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women, and they shiver at what they style "dangerous thoughts," in other words, at any speculation which may bring doubt upon their existing institutions. It is perhaps one of the gravest charges that one can level against the ruling classes in modern Japan, that they are afraid of new political ideas. There still lingers that timidity, mixed with a certain naive self-satisfaction, which made them cut themselves off from China in the Middle Ages, and from Europe in the seventeenth century. The exclusionist school is not dead, and a cynical observer might well suppose that Japanese statesmen, when confronted with some European doctrine which is unpalatable to them, are apt to argue to themselves that it does not apply to Japan. This perhaps explains some discrepancies between their public professions and their subsequent acts in relation to such matters as the open door in China, and the Kellogg Pact. Their Foreign Ministers, enlightened men, may have international minds and speak with conviction upon peace and friendship, but behind them are serried ranks of politicians and officials, still in large measure imbued with feudal ideology. It is true that a good case can be made out in defence of Japan's hesitation to subscribe to European doctrines, which can be summarised by saying that the practice of European, and (we may specifically add) of American, statesmen does not square with their professed principles. The West has not in the past set any conspicuously noble example in international affairs, and we cannot boast of success in controlling our economic development, so that the average Japanese may be excused if he concludes that he had better conduct his affairs according to his own practical wisdom, while paying us the compliment of using our jargon. On a short view this is a plausible case. But it leaves out of account the important truth that there are in the Western world strong currents of liberal thought which, though they may not often find expression in political action, are none the less genuine and characteristic of our culture. It is here that Japan is out of touch with Western thought to her own detriment.

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Nobody who knows the Japanese at all intimately will suggest that this deficiency is due to inherent weakness in their national character. It is their unfortunate environment, their position far across the salt, estranging sea, that makes it hard for them to grasp the essence of our minds ; for our tradition reaches back to a Hellenistic origin from which they are as alien as can be.

### III. MISTRUST AND MISUNDERSTANDING

CLEARLY it is of importance to the world that their mistrust and misunderstanding of us should be removed. Yet the course of events in the last few decades has tended rather to confirm the Japanese in their feeling that European civilisation has conferred upon them some very dubious blessings and struck them some very hard blows. They might be excused for thinking that they have gained from us little but trains, trousers and trouble, for in retrospect their recent history appears to them as a record of rebuff after rebuff at the hands of foreign Powers. Introduced into the nineteenth century world of struggle for territory, they followed the example of their professors and engaged in war with China, only to have the fruits of victory denied them. They were promising pupils in the science of destruction, and by defeating Russia secured from the world a respect which had hitherto been denied them, and even, ironically enough, a certain patronising approval of their arts of peace. They applied themselves with patient energy to manufacture and trade, and their success was ascribed by the West to dishonesty. Through the adoption of Western technique in industry, and through the benefits of foreign commerce, the growth of population was stimulated till it pressed upon the limits of subsistence. They endeavoured to relieve the strain upon their very restricted domestic resources by emigration and the exploitation of undeveloped lands outside their borders ; and at almost

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every point they were thwarted by foreign Powers. Canada, Australia, South Africa, the United States, exclude Japanese from their territories or subject them to indignities. They strive to maintain their teeming masses by earnings in foreign trade, and tariff walls rise high against them in all their chief markets. They are distracted, they do not know where to turn. East of them lies the United States, their best customer, whom they dare not offend and to whose preaching they must perpetually listen. West of them lies China, overwhelming in size and population—a potential market, it is true, but ever looming over them as a potential danger. Can it be wondered at that Japan, living near the edge of that region of ferment in eastern Asia, tries, however mistakenly, to take advantage of moments when other Powers are preoccupied, to secure what seems to her some firm foothold on shaky ground? Can it be wondered at that the Japanese in general, knowing only the surface of European life and finding it in all but its strictly material aspects not sensibly superior to their own, discount its idealism and regard such organs as the League of Nations as only further apparatus for confounding their policies?

It is for such reasons as those suggested above that we have described Japan's history as a tragedy rather than a triumph. Her situation to-day is one which an Englishman should sympathetically consider. A small island country inhabited by a vigorous race, but over-populated and possessing scanty material resources. The English, by happy fortune, have been able to spread all over the globe, and whatever may be the future of their native land, their character and tradition will continue to influence the development of mankind. Such high destinies can scarcely be reserved for Japan, for her culture is not of the proliferating kind. Nevertheless her people would have much both to gain and to contribute in a world where intercourse was freer, less tainted by suspicion than it is to-day.

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A practical minded reader will exclaim, "But this is mere vague benevolence!" and he will enquire what benefit we may expect to gain from Japan by according to her different treatment. The question is legitimate, and we must attempt to answer it. Shortly, the reply is that the modern society of nations cannot afford to have the mind of one of its important members poisoned by a feeling of mistrust and misunderstanding. At greater length the question can best be answered by an attempt to appraise some aspects of the national character of the Japanese with a view to showing how they may contribute to the progress of the world at large.

Perhaps the first thing that strikes a student is that the Japanese are not, as a people, given to philosophical speculation. They are sharp observers, deeply interested in the outward shape of things, so that all the external manifestations of European civilisation filled them, in the sixteenth century, and again in the nineteenth, with a restless curiosity and a determination to master the new knowledge. It is for this reason that they have been able in so short a time to make such great material progress. But they have felt no keen desire to explore the intellectual dominions of the West. Their minds never seem to have had a metaphysical bent. When they adopted Buddhism from India by way of China, they paid great attention to its dogma and its ritual, but its philosophic flights, though reverently accepted, were reserved for academic uses; and the same thing may be said *mutatis mutandis* of their reception of every doctrine they have subsequently imported.

This interest in the immediate, this neglect of the remote, have been lately described in scientific terms by an eminent ethnologist who considers that

the Japanese temperament is essentially "extravert"; interest goes out immediately to surrounding objects and people, rapid conclusions are formed, allowing the obvious features of a situation to be quickly understood and vigorously handled; there is little tendency to abstruse meditation or desire to transcend experience by abstract reasoning or to substitute for it ideal constructions.

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From this diagnosis flows naturally an explanation of much that is characteristic of Japanese life to-day. There is little or no blending of cultures, but a confusion, even a conflict. Industrialism at almost every point is hostile to the native tradition. The result, says the authority just quoted, is "a kaleidoscopic mixture which among a less hardy people might be thought to produce an almost intolerable strain." But in truth the strain is almost intolerable, and its evil results are patent. In the home there is a struggle between the family system and the individualism which is encouraged by competitive manufacture and trade. In the school and the university there is a struggle to reconcile the claims of the native culture with Western learning, and the burden upon students has tragic consequences. In administration there is the perpetual difficulty of getting results out of a machine on the Western model run by operatives whose life has a predominatingly Eastern background, a difficulty visible, for instance, in post offices and railway booking halls, and graver though less obvious in most branches of government. Examples might be multiplied, but these will suffice to show what stresses have been set up in the social and political organism by such incompatible forces. The wonder is that the Japanese have come through the ordeal so creditably. No doubt, in some ways the strife and the effort have benefited them; and in a suitable environment they might evolve from the clash of two cultures an admirable version of their own. But the atmosphere is unfavourable for such an experiment, since their energies must be centred upon the plain problem of subsistence. They have to provide for a population which is growing faster than its means of support, and is denied outlets by the rest of the world.

It is one of the cruel ironies of the modern world that the people which has by general consent best learnt the lessons of its Western teachers is disliked and excluded by almost all the great States. The Japanese abroad are mistrusted because of their virtues, and not their vices.

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They are good citizens, quiet, orderly, industrious, thrifty, and the only valid charge against them is that they tend to gather together in small communities of their own and to live below the standard of the other workers in their adopted country. Even if this charge could be generally sustained, it would not be serious. In the first place, the countries in which Japanese for preference settle, such as the United States, have owed their development in a large measure to imported labour willing to accept a lower wage than the native-born workman. Thus, in laying the first transcontinental railway track Chinese labour was important, while many heavy industries have for long depended on unskilled manual labour from backward parts of Europe. In the second place, it is notorious that where free immigration is allowed, immigrants soon become, from an employer's point of view, only too ready to claim the highest available reward. Japanese emigrants to America in recent years, before they were entirely excluded, never felt secure, and it is not unnatural that they should have remained clanish and aimed merely at saving enough money to keep them in comparative comfort in Japan. But it by no means follows that, if they were admitted freely, or even in agreed numbers, to America or Australia to-day, they would behave similarly. Life in Japan, in many of its physical aspects, tends to approximate more and more to the Western type, so that it is more and more simple for a Japanese to become habituated to existence among Western people. The pressure of population at home, combined with a certain relaxation of traditional family bonds, lessens the pull of their native country upon expatriated Japanese, and it is to-day no uncommon experience to find a Japanese returned from a long sojourn abroad quite ill at ease among his home-keeping compatriots. Altogether, it is probable that, under favourable conditions, the Japanese are among the most assimilable of peoples in the cultural sense.

But it must be admitted that they are not regarded in

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most countries as racially assimilable, if we may use a term to which ethnologists would probably object. There is on both sides a prejudice against the mixture of European and Japanese stocks. Consequently they tend in most countries to segregate themselves in communities of their own, thereby arousing suspicion and dislike, although their behaviour is usually unimpeachable. But given free association and some intermarriage there is no doubt that in countries like Canada or the United States they could be comfortably absorbed in considerable numbers, though in countries with a strongly colour-conscious "white" population, such as Australia, feeling against them would be overwhelmingly strong. In European countries there is no room for them. In tropical countries they probably cannot settle permanently, since they belong themselves to the temperate zone. Altogether their situation, as we have already suggested, is a tragic one. They are not of the East, and the West rejects them. Yet to those who know them well it seems not only that they have much to offer to us, but also that the one thing which they need most of all is free and close association with the West. Their own sequestered life is full of inhibitions, vestiges of not very remote feudal times; but not far below the surface, waiting to be vitalised, are those admirable qualities of a gay, adventurous kind, to which we have already alluded, warm qualities of a Latin type, courage and æsthetic sensibility, which ought to be poured into the common stock of mankind. It is intimate touch with Western minds and temperaments that they require, some real give and take of thought and feeling instead of the mere interchange of counters and commodities which at present constitutes the intercourse between Japan and the Western world. The barriers which stand in the way of such intercourse we have already indicated—distance, language, tradition. But until they are surmounted we cannot expect Japan to subscribe intellectually to European doctrines of conduct for either the individual or the State.

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### IV. A DESPERATE POLICY

PERHAPS this conclusion will provide a key to some of the current and future policies of Japan. First it must be understood that, from the very fact of her long isolation, Japan has no tradition of international politics. Inbred in her ruling classes is an idea that intercourse with foreign nations spells aggression or interference, an idea which her history since the Restoration of 1868 has done nothing to remove. In matters of domestic administration Japanese statesmen have inherited feudal principles. Their fathers or their grandfathers were men of great practical experience in government, conducting affairs according to a highly developed, if limited, social ethic in which fidelity and a disciplined obedience were cardinal. Many of the leaders in public life to-day are acquainted with European social theory only by hearsay, and European social practice, as they observe it, is not so conspicuously superior as to urge them to abandon the doctrines of their ancestors. It should not be inferred from this that they are naturally antagonistic to new conceptions. On the contrary, as has already been made clear, the Japanese have always been interested in any teaching presented to them, for they are curious and eager to learn. But because their group feeling, their nationalist sentiment, is one of the strongest elements in their make-up, they examine all new things with the intention of adopting what seems likely to be useful to themselves, and they are not receptive of general ideas. It will be understood, therefore, that the seemingly occidental fabric of the State in Japan rests upon peculiarly native foundations.\* It is true that certain statesmen and publicists in Japan are men whose minds are of a cosmopolitan cast, and who are in sympathy with liberal thought from whatever source it springs; but perhaps by reason of their very excellence, they are out

\* See an illuminating article in the London *Times* of January 16, 1932, by its Tokyo correspondent upon party politics in contemporary Japan.

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of harmony with common political life in their own country and their influence is small compared with the influence of those who preserve the narrow and somewhat truculent mentality of the former military class. Those who think on international lines seem, indeed, to have nothing to offer their compatriots, who are, on the contrary, thanks to that "extravert" character described on an earlier page, impressed by immediate and tangible objects. That is why the Manchurian policy of Japan arouses no grave misgivings in the mind of the military party which inspired it or the public who have accepted it. It offers action, results, an outlet for circumscribed national energies. If it is inconsistent with the spirit of international harmony, is Japan any worse off for that than she was before? Can the Powers which exclude Japanese subjects from their own territory be trusted when they profess international amity? Do force and money rule the Western world, or do they not? These are the questions which naturally arise in the minds of the average Japanese, and if we wish them to be answered in a manner favourable to ourselves we must instruct them by example, and not by precept.

Let us, then, briefly recapitulate our somewhat diffuse arguments. They amount to this: Japan internally is in a state of stress, both cultural and economic. The difficulty of reconciling her own, cultural individuality with the conditions imposed upon her by occidental civilisation produces a strain both upon the individual and the nation as a whole, which results in a frame of mind leading easily to antagonism towards the West. The difficulty of making ends meet in a poor country forces the Japanese to look abroad for new sources of wealth. But, as we have seen, they are thwarted at every turn. Only in China is there territory which they can perhaps exploit. It is a dangerous remedy for a dangerous situation, and they are well aware of it. They know well that now, as in past centuries, their destiny must be governed by the march of events on the Asiatic mainland. Can they, they ask themselves, and with

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fear rather than with hope, influence those events by their own policies ? We do not, perhaps, appreciate what terrors their situation holds for them. Let an Englishman imagine how he would feel if the greater part of Europe were inhabited by one homogeneous people vastly more numerous than his own, with a growing national consciousness, traditionally hostile. Just as the idea of a peaceful European confederation seems, alas, a dream to most European statesmen, so to the rulers of Japan the prospect of an understanding, to say nothing of a partnership, with China seems unutterably remote. It must be admitted that the Japanese have, to their credit, in the last few years tried, however clumsily, a policy of conciliation with China, and have persisted in it under great provocation. It is not only the reactionary elements which have called a halt to this experiment. There are many seriously minded Japanese who regretfully, but quite sincerely, believe that such a policy was bound to fail. They see China rapidly disintegrating before their eyes, and they ask themselves whether their best course is not to strive to save something from the ruins, and to mark out and secure at least one area which they can immunise from the surrounding contagion. It is a desperate policy, but it is intelligible to anybody who will admit that Japan's interests in China are more vital to her than the interests which the Shanghai defence force was established to protect so short a time ago were to England. It is a dangerous policy. Dangerous to Japan, because it tends to revive the prestige of the military caste, to strengthen the waning feudal ideology. Dangerous to civilisation, because it creates one more septic focus in a disordered world.

But we have largely ourselves to blame ; and unless there is a considerable change in the attitude of the Western Powers not only towards Japan, but towards one another, we may expect the Japanese to pursue the kind of policy which seems to offer immediate benefits rather than the kind which European nations have so frequently recommended to others and so rarely tried themselves.

## IRELAND

### I. THE OATH BILL AND THE LAND ANNUITIES

THE development of the Irish situation during the last three months affords little justification for optimism. The issues concerning the oath and the land annuities raised by Mr. de Valera's Government remain still unsolved, and the possibility of their solution seems as remote as ever. The Oath Bill finally passed the Dail on May 19 by a majority of eight votes and was immediately sent to the Senate, where the second reading debate began on May 25. There was much speculation as to the attitude which this body would take up towards the Bill. It was known that some Senators favoured its absolute rejection, whilst others apparently believed that it could be killed by amendment, and that this course was more diplomatic. In the end the Senate passed the Bill, having first deleted sections 2 and 3, which removed the Treaty from the Constitution, and added a new section which provides that the Bill shall not come into force until an agreement has been entered into between the Government of the Irish Free State and the British Government providing that Article IV of the Treaty of 1921, which prescribes the oath, shall cease to have effect and until such agreement has been ratified and approved by resolution of the Dail. This new section was inserted in the Bill by a majority of eleven votes on June 8. The debate in the Senate was on the whole disappointing, and the voting, with one or two exceptions, was on normal party lines. Mr. de Valera's own speech introducing the Bill in the

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Senate was singularly moderate and almost persuasive in tone. He argued that certain articles of the Treaty dealt with the domestic affairs of the Free State, and that owing to the alteration in status that had taken place the Free State had now the same right to deal with these domestic matters on its sole initiative as any other State in the British Commonwealth. The Treaty could not, he said, operate against us for all time when our equal status had been recognised by the British Government. The whole purpose of the Bill, apart from the removal of the oath, was to put the Treaty in its place as an international instrument. Senator James Douglas, replying for the Opposition, pointed out that the Bill raised the whole question of the Treaty obligations, and Mr. de Valera had not told them where it would lead them ; that Mr. de Valera had no mandate to take the Free State out of the Commonwealth, either directly or by back-door methods, and that the Senate would see that sufficient time elapsed to enable the people to know where they stood.

The Fianna Fail party naturally object strongly to the situation now created which will force them either to hold a general election at once on this issue, or to wait eighteen months, when the Bill can be passed in spite of the Senate. Senator Connolly, the Minister for Posts and Telegraphs, their leader in the Senate, stated during the debates that if the Senate obstructed the Bill it must be prepared to take the consequences. In other words, one of the issues at the next general election may be the abolition of the Senate, or at least the drastic limitation of its attenuated powers. It would certainly be an ironical result if the Senate perished owing to its first display of courage. One of the most interesting speeches in the debate was made by Senator O'Farrell, one of the Labour Senators, who has a clear and independent mind. Whilst he announced his intention of voting for the Bill out of party loyalty, he believed the Bill to be a breach of the spirit of the Treaty, and considered that a satisfactory settlement could have

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been reached by negotiation if the matter had been dealt with in a normal manner. Failure to enter into negotiations was, he said, a sign of weakness rather than of strength. It was not bravery, but bravado. In the final debate on June 28 Senator Connolly stated that the Government would not accept the Bill, amended and lacerated as it was by the Senate, but would let it go back to the Dail as it stood.

Meantime the position as between the British Government and the Irish Free State Executive had become more clearly defined. In the House of Commons on May 11 Mr. Thomas, Secretary for the Dominions, gave a clear warning what the attitude of the British Government would be towards the matters at issue. The Bill to abolish the oath was, he declared, in direct conflict with the obligations undertaken by the Irish Free State under the Treaty of 1921. Therefore it appeared to the British Government that if it became law it would be unreasonable to expect that they should enter into negotiations with a Government which had repudiated existing agreements for further agreements with regard to tariffs after November 15, when the exemption of the Dominions from the new duties would expire. A few days later Mr. de Valera, replying to Mr. Thomas, denied the right of the British Government to dictate to the Irish people. "A measure," he said, "is being enacted here which is deemed necessary so that normal methods of government replace government by coercion. In what conceivable way can this injure the people of Britain?" So great was the divergence of attitude indicated by these statements that considerable surprise was created by the dramatic statement of Mr. Thomas in the House of Commons on June 6 that the British Government had received an invitation from Mr. de Valera to a preliminary discussion of the difficulties between the two countries in relation to negotiations connected with the Ottawa Conference, that as a result he and Lord Hailsham, the Secretary of State for War, would cross to Dublin

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that night, and that Mr. de Valera would resume the conversations in London on June 10. This announcement naturally raised great hopes on both sides of the Irish Sea, hopes which were stimulated by the friendly reception accorded in Dublin to the two English envoys, both by the people and the Government.

No Irish leader has ever had a better opportunity of decisively establishing permanent friendly relations between Ireland and England than was given to Mr. de Valera at the London conference. It was quite clear that the British Government was prepared for a reasonable accommodation, and that while the abolition, or the modification of the oath could probably be obtained by negotiation, the question of the land annuities might be left to arbitration. Some such solution appeared not only possible, but equitable, and if it had been achieved Mr. de Valera might well have taken his place in history among Ireland's greatest statesmen. But no one acquainted with his Don Quixote-like mentality expected any such result, and in the event they were unfortunately fully justified. At the first interview, in Dublin, Mr. de Valera, according to Mr. Thomas, pointed out that his ultimate aim was the union of the Irish Free State and Northern Ireland, and after that the recognition of a united Ireland as a republic with some form of association with the British Commonwealth in some circumstances and for some reasons, with the recognition of the King as head of the association. For the moment, however, he admitted that his Government had no immediate mandate for this particular course, though they intended to abolish the oath and to withhold the land annuities as well as other payments to England. After this hopeful beginning Mr. de Valera went to London, where he was politely informed that not only the present but no British Government would ever agree to such suggestions. He then proceeded to argue that the oath was forced upon the Irish people under duress, and that it was not mandatory. In reply to this argument Mr. Thomas quoted

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the statements of Mr. Kevin O'Higgins, and of Mr. Duggan, one of the signatories of the Treaty, and also referred to the subsequent general elections in the Free State which had conclusively decided in favour of the acceptance of the oath and the Treaty. As regards the land annuities, Mr. de Valera claimed that they had been paid under a secret agreement behind the backs of the people, although it was pointed out to him that this agreement was discussed openly in the Dail, and that the Cosgrave Government was afterwards again returned to power at a general election. When asked to submit the question of the land annuities to the arbitration of an Empire tribunal he refused, on the grounds that the dice would be loaded against Ireland in such a tribunal. The net result of the London conference was therefore exactly nothing, save a clear intimation from the Free State Government that they absolutely refused to withdraw the abolition of the oath Bill or to admit that the oath was a Treaty obligation, that they would not agree to an Empire tribunal to arbitrate on the question of the annuities, and that they further intended to withhold other payments due to England under the Treaty and subsequent agreements. In fact, the position was worse than if no conference had taken place.

It may be asked why, in such circumstances, Mr. de Valera ever asked for a conference, and, although the question is not an easy one to answer, the correct reply is probably to be found in his fanatical belief in the justice of his claim and the reasonableness of his demands. How far he suffers from self-delusion, and how far from the domination of an *idée fixe*, it is difficult to determine; but he is one of those people, dangerous both to themselves and others, who only see what they want to see. It is certain that he entered into the negotiations with England just as if he were back in 1921 discussing the terms of the Treaty, and as if ten years of negotiation and development in the relations between England and Ireland had not intervened. What he now describes as his ultimate aim

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is in [reality the proposal [put forward during the Treaty negotiations, probably by the late Erskine Childers, in the following words : "The proposal is that Ireland, while preserving her national independence, shall for all purposes of common concern, associate herself with the British Commonwealth of Nations, and recognise the British Crown as head of the Association." The grounds given for this demand were that England, unless Ireland were granted complete independence, would be sure, because of her contiguity, to continue her interference in Irish affairs by repression and veto. The same demand was further amplified and qualified in the famous Document Number Two, for the sake of which Mr. de Valera helped to plunge Ireland into civil war. In now reviving this demand he completely ignores the fact that the only argument advanced in its support has been blown sky high by the way in which England has for ten years scrupulously observed the Treaty of 1921, and indeed far extended its scope by friendly negotiation with the Government of the Free State. It is quite true, as Mr. McGilligan lately remarked in the Dail, that Irish independence has been won, but that there are some people who are so foolish that they cannot see it.

On June 16 Mr. de Valera addressed a further note to Mr. Thomas, in which he stated that the Free State Government would agree to arbitration on the question of the land annuities by a tribunal of a general character, provided that its personnel was not restricted to citizens of the British Commonwealth, and that the matters to be submitted for arbitration included not merely the land annuities, but the other annual payments made to the British Government by the Government of the Irish Free State in pursuance of agreements which had not been formally ratified by the Parliaments of both States. In a full year the moneys payable to the British Government by the Irish Free State amount in all to about £5,000,000, and comprise, in addition to the land annuities, sums in

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respect of pensions to police, judges, and civil servants, local loan annuities, and compensation for damage to property in the Irish Free State during the years 1919-21. On June 22 Mr. Thomas made it clear in a further note to Mr. de Valera that the British Government could not agree to arbitration by a tribunal whose personnel was not confined to citizens of the British Commonwealth. To this Mr. de Valera replied on July 1 that the Government of the Irish Free State would regard it as deeply regrettable were artificial restrictions on the personnel of the tribunal to be allowed to stand in the way of the acceptance of arbitration in the present instance. Freedom of choice by the parties in the selection of their nominees was of the very essence of arbitration. He also again stated that the Free State Government disputed the claims of the British Government to all other annual or periodic payments except those made in pursuance of agreements formally ratified by the Parliaments of both States, which together with the land annuities imposed on the people of the Irish Free State a financial burden they were unable to bear. On the same date the Free State definitely defaulted in the payment of £1,500,000, being the half-yearly payment due on June 30 in respect of the land annuities.

It had now become obvious that the British Government must either take action at once or acquiesce in the default, and, on July 4, Mr. Thomas moved a financial resolution in the House of Commons (which was passed by a large majority) giving power to the Treasury to make orders imposing duties on any imports into the United Kingdom from the Irish Free State, up to 100 per cent., over and above any existing customs duties. Tracing the history of Irish land purchase, Mr. Thomas quoted statements by past leaders of the Irish people扫ing any idea of the repudiation of the land purchase annuities by the Irish people. He made no charge against the Irish farmers. It was, he said, the Irish Government, not the farmers, who repudiated these payments. The motion was not

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intended to start a tariff war, and when the amount due to the British Government was obtained the duties would cease. During the debate it transpired that the Irish Government was placing the amount received in respect of the annuities in a special suspense fund pending the result of arbitration proceedings. In point of fact, as the law stands at present under Section 12 of the Land Act of 1923, which has not been repealed, the land annuities must be paid into the Land Purchase Fund in any event. But in this connection it is well to remember that the Free State Government have virtually declared a moratorium as regards all arrears of the annuities due on January 1, 1932, and in many districts the farmers have stopped paying them altogether.

Meantime the news of the British Government's action had created considerable alarm in Ireland. Last year Great Britain bought food to the value of £23,500,000 from the Free State, and exports of cattle and sheep and pigs accounted for nearly three quarters of that sum. Moreover, the trade of the Free State with Great Britain is 93 per cent. of her total export trade. As Mr. R. W. Sinnott, the President of the Irish Free State Association of Chambers of Commerce, pointed out in his presidential address on June 30, the retention of our rightful share of the British market is vital to the welfare of the Free State. There is no other market for our surplus produce, and it is quite impossible for the home market to absorb that surplus. But the Free State Government counted on the fact that the British market at present relies almost solely on the Free State for its supply of cattle, sheep and pigs; they believed that the English Government would not venture seriously to interfere with this important source of food, and that a tariff war would inconvenience and injure the British consumer as much as the Irish producer.

On July 6 Mr. Thomas despatched a reply to Mr. de Valera, in which he stated that the British Government

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were willing to consider any variation in the form of the arbitration tribunal which might be acceptable to the Free State, but that its members must be drawn from within the British Commonwealth. They did not know the grounds on which the Free State's liability to other payments had been challenged ; but if, on explanation, these seemed suitable for arbitration, the British Government would be prepared to submit them to a similar tribunal. On the same date the second reading of the Free State (Special Duties) Bill was carried in the House of Commons by a majority of 280 votes, the Labour party's motion for its rejection being defeated. The Bill became law on July 11, and on the following day the British Treasury issued an order imposing a duty of 20 per cent. *ad valorem* on live animals intended for food, animals not intended for food, butter, eggs, cream, bacon, pork, poultry, game and other meat of all kinds imported from the Free State into the United Kingdom as from July 15. On the basis of the Board of Trade figures for the year 1931, the annual value of the British imports from the Free State affected by the new duties is about £26,000,000 out of a total of £36,000,000. On this same day the Dail rejected the Senate amendments to the Oath Bill by a majority of nine votes, and so completed the deadlock between the two Houses. Mr. de Valera's speech during the debate was more than usually dramatic and extreme. Dealing with a suggestion by Mr. MacDermot, one of the Independent deputies, that the Government should withdraw the Bill and "do the decent thing" by asking the people of the country to show whether they desired to sever their connection with the Commonwealth, he replied : "I hope to see the day when we may do the decent thing." He then proceeded to protest that no Irishman could take up the challenge with the position as it is to-day, because the British Government had never given any unequivocal declaration that they would not interfere by hostile action if the people of Ireland chose to break away completely

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and have no further connection with them. On July 15, the date on which the British duties became effective, the Dail passed through all its stages an Emergency Duties Bill giving the Free State Government omnibus powers to retaliate against England. This Bill authorises the imposition of excise and stamp as well as customs duties.

Meanwhile the rapid and disastrous development of the situation had clearly alarmed the Irish Labour party, and their leader, Mr. Norton, after a long interview with Mr. de Valera, proceeded to London, where, through the intervention of Mr. Lansbury, the leader of the British Labour party in the House of Commons, he saw Mr. Ramsay MacDonald, who said that he would be happy to discuss the position between the two countries with Mr. de Valera with a view to a settlement. Mr. de Valera accordingly once more travelled to London and saw the British Prime Minister on the evening of July 15. Mr. Norton had proposed that negotiations should take place between representatives of the two Governments, but no means of coming to an agreement when these negotiations inevitably failed after, probably, months of useless talk, were suggested. Mr. de Valera asked that the new British duties on Irish agricultural produce should be removed during the proposed negotiations, but Mr. MacDonald refused to agree to such a proposal unless the Free State Government paid over the annuities then due, pending the final decision, and the negotiations accordingly broke down. The real dispute between the two Governments is, however, on the vital question of who is to act as umpire in the arbitration proceedings. Mr. de Valera will not accept a citizen of the British Commonwealth, and it is believed that he desires, as he did in 1921, that the final decision should be left to an American nominee. This attitude of mind, which is fundamental, is based on suspicion of any proposal made by English politicians—a suspicion not peculiar to Mr. de Valera—and on his desire to assert the sovereignty and complete independence of

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Ireland by forcing England to accept the decision of an international court. It is precisely the same issue as is raised by the abolition of the oath. It is not necessary to go back to the days of Oliver Cromwell, as Mr. de Valera is fond of doing, in order to explain and justify Irish suspicion. One need only read Mr. Denis Gwynn's recent life of John Redmond to find an ample and tragic illustration of the treatment meted out by English politicians, and notably by Mr. Lloyd George, to an Irish national leader who endeavoured to combine Irish and Imperial patriotism. It can only be disarmed by a generous recognition of its substance, and by a concession that will disarm criticism. Were the British Government wise enough to accept or suggest, as final umpire, some person obviously not of English extraction—such, for instance, as Sir Charles Gavan Duffy, the distinguished Irish Chief Justice of Australia—their *bona fides* would be established beyond doubt. At the moment no solution seems either possible or probable. The Free State Emergency Duties Bill became law on July 22. As it was a money Bill, the Senate had no power to postpone its operation, but only to make recommendations, three of which were accepted by the Government. One of these accepted recommendations makes it possible for the Dail to be assembled at any time on a requisition of the majority of its members, and so, if Labour becomes restive, as is extremely possible, it can call the Government to account at any time. On July 25 an order was issued imposing ten import duties under this Act, seven of which are directly aimed at Great Britain, and include coal, cement, electrical appliances and equipment, sugar, molasses, glucose, saccharine, iron and steel. The importation of cheese is prohibited, the preferential rate on potatoes is withdrawn, and prohibitive duties are imposed on pig meat and pig products. The duty on British coal is 5s. per ton, and should yield about £600,000 a year if present imports are maintained. These new tariffs are clearly designed to strike at British trade where it has

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to meet the severest foreign competition, and imports approximately valued at £8,000,000 are involved.

In the final debate on the Emergency Bill, Mr. Cosgrave appealed to the Government to resume negotiations with England, and said that in such an attempt they would have the support of all parties. Mr. Davin, one of the Labour deputies, said that his own party had refrained from speaking on the Bill because they were trying to bring about a friendly settlement ; but these speeches had apparently no effect on Mr. de Valera, who seemed to welcome the Bill as an important step towards his object of erecting a Chinese wall around the Free State so that as little outside produce as possible may come into the country. In an appeal for peace issued on the same day, the Cumann na nGaedheal party called upon all patriotic Irishmen to use every effort to prevent the disastrous economic war with Great Britain into which the Irish people were being dragged. No conceivable victory would make up for the loss and suffering to helpless people that would inevitably be involved in such a struggle, the effects of which, if protracted, would make the difference between victory and defeat not worth the reckoning. The way to agreement lay in direct negotiation between the two Governments, and not in arbitration on legal issues. The one real requisite for success was a clear assurance by Mr. de Valera's Government of their unqualified acceptance of the constitutional position created by the Treaty. But there is little hope of Mr. de Valera listening to such good advice. He now knows that there is no chance whatever of his legal argument for the retention of the land annuities being accepted by any impartial court ; but he cannot proceed to negotiate for equitable relief without a grave loss of prestige, and he has therefore decided to plunge the country into an economic war rather than to admit his real position, hoping that the resulting confusion will enable him to camouflage his mistakes and offer some avenue of escape. Unless some unforeseen intervention takes

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place, the two countries must now apparently face the prospect of a barren economic war, which will finally cripple the Irish Free State. The Senate has refused to alter its attitude on the Oath Bill, which is therefore hung up until January, 1934. In the meantime much may take place, but it is clear that Mr. de Valera's followers will not permit him to risk the verdict of a general election. The sweets of office are too precious to be lightly jeopardised, and ten years in the political wilderness have made his hungry sheep clamorous for food. If he really believed in his mandate to remove the oath he should have immediately answered the challenge of the Senate by an appeal to the country before the implications of his policy were manifest. But that opportunity will never recur. Nothing but the results of his own actions can now remove him from power before his Government's normal term.

In spite of the economic war with the United Kingdom the Irish Free State Government has actually sent a delegation to the Ottawa Conference. At the last moment Mr. de Valera wisely decided that his official duties in the Free State would prevent him from attending, and the Free State delegation, which sailed from Belfast, consists of the Vice-President of the Executive Council, Mr. Sean T. O'Kelly, who is also Minister for Local Government, Dr. Ryan, the Minister for Agriculture, and Mr. Sean Lemass, the Minister for Industry and Commerce. They are accompanied by various officials, including Mr. Dulanty, the Free State High Commissioner in London, and by two external advisers, Mr. Joseph Brennan, the Chairman of the Free State Currency Commission, and Senator T. Johnson, who is the Leader of the Labour party in the Senate and a strong supporter of Mr. de Valera's policy. Under present conditions their presence at Ottawa is little more than a gesture to gull the Irish electors, because the only commercial agreements which matter to the Free State are those to be made with Great Britain, and such agreements are now ruled out in advance. As Mr. de

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Valera is absent, the delegation, bearing in mind the history of the 1921 negotiations, is not likely to be foolish enough to negotiate a settlement of any vital question, and the Irish taxpayer may legitimately ask why he should pay for what is little more than a joy ride. It is of course possible that this visit to Ottawa may have an educational effect on the delegation, and it is obvious already from Mr. O'Kelly's tactful and moderate speech at the opening meeting of the Conference, and from the fact that the Irish delegation were the first to call on the Governor-General and did not attempt to make any foolish protest against the address of loyalty to the King, that environment and commonsense have had their usual result. All Ireland is, however, laughing at the fact that Mr. O'Kelly and his colleagues have appeared at Ottawa in tall hats and conventional morning dress, a garb which Mr. de Valera has decreed to be taboo for his followers in the Free State.

The Irish Republican Army and the extreme Republican element have meanwhile not been inactive. Drilling is—on the admission of the Government—taking place in many districts, and there have been numerous rumours of gun running, successful and unsuccessful, none of which have been officially authenticated. It is, however, certain that there has been a vigilant patrol of the south-west Irish coast by British destroyers, that the Free State Government was warned of what was happening, and that the Civic Guards have been instructed to keep a close look out for any attempt to land arms. On Sunday, June 19, the I.R.A. held its annual commemoration of Wolfe Tone at his grave in Bodenstown churchyard, County Kildare, where some 15,000 men paraded in military formation, but without arms. The Government took no part in this demonstration and held an official army parade at the same place on June 28, when Mr. Aiken, the Minister for Defence, delivered the usual stock oration common on such occasions, and insinuated that the Free State Army

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might have to attack Ulster. The *Poblacht*, which is the official organ of the I.R.A., denounced this gathering as a mockery of Wolfe Tone. It has also recently denounced Mr. de Valera's policy of external association with England and the British Empire, stating that the national demand is for absolute sovereignty without equivocation. It also demands that the whole Free State government machine, including the army and the civil service, must be scrapped because it is anti-national and reactionary. Recently the *Irish Press*, Mr. de Valera's paper, announced a scheme to establish a new Free State territorial force, to be known as the National Guard, and the I.R.A. organ denounced this scheme, which at first sight had a sinister appearance, as an attempt to divert men of military age from the revolutionary movement. There is no doubt that the almost complete stoppage of emigration has increased the number of unemployed young men in the country and that these idle, and generally quite ignorant, boys are fertile soil for revolutionary propaganda. It is clear also that the leaders of the I.R.A. will give Mr. de Valera no quarter if he departs from the narrow path they have marked out for him. The fact that an I.R.A. officer was recently prosecuted in Dublin for possessing two revolvers and a rifle may perhaps be taken as an indication that the de Valera Government has at last realised that it cannot tolerate two armies, one of which is not under its control. Officially it still maintains its ostrich-like attitude of ignoring everything which does not conform to its statement that Ireland is for the first time at peace and that the I.R.A. have accepted the *status quo*. Although, in the case above mentioned, the facts were clearly proved, the jury were afraid to convict, and Judge Davitt (a son of the great Irish leader, Michael Davitt) promptly sentenced the potential warrior to three months' imprisonment for refusing to recognise the court. Ten days later the Government, doubtless under pressure from the I.R.A., released him unconditionally.

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Mr. Cosgrave's party has maintained an active and intelligent opposition in the Dail, and has shown itself both ingenious and resourceful in debate and manœuvre. Speaking at their annual convention in Dublin on May 17, Mr. Cosgrave said that they stood for the Treaty as it stood ten years ago, not for every line nor every comma, but for such alterations as were agreed on by the high contracting parties. They wanted to continue the friendly relations of the last ten years. Whatever else has been lost by Mr. de Valera's return to power one important thing has been gained: it is now clear that one great Irish party stands decisively for a policy based on Christian relations between Ireland and England, the only policy which can in the end be of advantage, both moral and material, to both countries.

## II. MR. DE VALERA'S ECONOMIC POLICY

IF a Glasgow Communist and a die-hard tariff reformer were merged into a single personality and, having somehow managed to escape certification, became Minister of Finance in the Irish Free State, the result would probably be somewhat similar to the budget introduced in the Dail on May 11 by Mr. Sean McEntee. It reaches the high-water mark of predatory taxation and tariff imposition. Mr. McEntee's statement showed that the total amount to be provided for normal expenditure was £27,064,000, and that the total estimated revenue was £23,310,000, to which there had to be added £1,900,000 to implement the Government's proposals and promises for dealing with unemployment, relief of rates on agricultural land, and milk for children of families in receipt of home assistance, making a total deficit of £5,516,000. To meet this situation Mr. McEntee has raised the income tax from 3s. 6d. to 5s., imposed the surtax on all incomes over £1,500, increased the Corporations Profits Tax, placed a fresh

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duty of 4d. per lb. on tea, a duty of 2d. per packet or bottle on packed foreign articles of food and drink, and also on cosmetics and medicinal preparations packed ready for sale, taxed all forms of entertainment except Gaelic sports and the theatre, increased the tobacco duty by 1s. 2d. per lb., taxed gramophone records at the rate of  $33\frac{1}{3}$  per cent. *ad valorem*, and complete wireless apparatus at that of 50 per cent., imposed a levy of 25 per cent. upon the hospitals' share of the sweepstake distribution, and a tax of 1½d. per copy on all newspapers and periodicals imported in bulk of which the superficial area of the front page does not exceed 320 square inches; finally they have put 43 new import duties on articles of every kind and description ranging from dressed stone to books. From these variegated tariffs Mr. McEntee estimated that he would obtain a revenue of £910,000, but in the subsequent debates many of them had to be modified and others abandoned owing to their obvious impracticability. For example, the tariff on books has now been confined to books bound in leather or artificial leather—in other words to prayer books and English novels, a strange mixture. The tariff on novels is evidently an attempt at a back door censorship. An absurd tariff on motor car bodies had also to be immediately suspended. Mr. Lemass, the Minister for Industry and Commerce, in fact admitted that in imposing these tariffs they were proceeding by the method of trial and error.

This extraordinary budget is explained by the fact that Mr. de Valera during the election committed himself to a policy of high tariffs in order to build up Irish industry, and promised large extensions of social service and unemployment relief. He was returned to power largely by the votes of men of no property and small income, and he is now doing his best to please his supporters and punish his opponents. Mr. McEntee in his budget speech accused his predecessor in office, quite unfairly, of having left a large concealed deficit, a statement which he after-

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wards had to withdraw. He also said that the Cosgrave Government had left the State with a national debt of £115,000,000 and only £25,000,000 of assets. He arrived at these alarming and inaccurate figures by adding to the real debt of £22,000,000 the capital value of the land annuities, £76,000,000, which is fully covered by the value of the farms, £5,000,000 due in respect of local loans, and £12,000,000, the capital value of the Royal Irish Constabulary pensions, both of which are normal liabilities of a terminable nature payable out of current revenue, and part of the payments to the British Government which Mr. de Valera now also refuses to make. It is clear that the budget is designed to force the property owners to support Mr. de Valera's policy of withholding the land annuities, because only through his success in this project can they expect any relief from the intolerable burden now placed upon them. The civil service, which undoubtedly in the main supported Mr. de Valera at the last election, is now up in arms, because it is proposed to save £250,000 by cuts ranging from 2½ to 20 per cent. on all salaries over £200 a year.

One immediate effect of the budget was the closing down of the new factory recently erected in Dublin by the Free State branch of Gallaher, Limited, the big Belfast tobacco manufacturers, who found it impossible to carry on owing to the preferential rate of 7d. a lb. on tobacco given by the budget to firms carrying on business continuously in the Free State since 1922 and owned by Irish nationals. It might be thought that these tariffs were designed to force foreign combines to open factories in the Free State, but, lest such a result should take place, the Government have introduced a Control of Manufacturers Bill, which is intended to ensure control over the number and nature of external firms which may henceforward engage in manufacture here. No concerns established in the Free State before June 1 of this year will be affected, and no restrictions will be imposed on firms in which Free State nationals have

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a controlling interest. Amusing to relate, the definition of an Irish national in the Bill would exclude Mr. de Valera himself, as he was not born in Ireland, and both his parents were not Irish. On the other hand, any external firm which now wishes to commence manufacturing in the Free State must obtain a licence from the Minister of Industry and Commerce. The purpose of the Bill is to prevent foreign competition with local industry, but, in effect, it will, of course, also prevent the introduction of any foreign capital, for harsh though its terms are, no one can say that it is the last word.

The Minister of Industry and Commerce, subject to Mr. de Valera's orders, will now be the virtual director of the country's economic life. The Irish investor is to be induced by these methods to invest his money in local industry at the cost of enhanced prices to the unfortunate consumer. Meanwhile our unemployment figures have gone up within a year from 25,413 to 31,372, and will rise much higher in the near future. The price of necessary goods is also rising in all directions. Messrs. Cadbury, the well-known English firm of chocolate manufacturers, in a letter to a Tipperary correspondent who had pointed out to them the suitability of Tipperary as a centre for the manufacture of their product, state that they have been notified by the Free State Government that a licence to manufacture will not be granted to them, and that, having regard to the economic policy of Mr. de Valera's Government and the small size of the Free State market, they could not in any event see their way to start manufacturing here. Apart from a few small factories in Dublin started to pack foreign goods imported in bulk so as to avoid the package tax, there have been virtually no serious industrial developments as a result of Mr. de Valera's economic policy, nor, as far as we can judge, are there likely to be any. On the contrary, many important projects, such as the new flour mills, which were to have been built in Cork and Limerick, have been definitely cancelled. The Govern-

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ment's policy with regard to flour milling, which has been imposed [upon] them by certain noisy and irresponsible busybodies, is to keep out foreign flour and foreign flour millers, and to revive the small uneconomic flour mills scattered about the country. With this object, they have imposed a duty of 5s. a sack on wheat flour and wheat meal entering the Free State. Mills which are under the control of Free State nationals will be encouraged to turn out as much flour as possible, while the mills under the control of English milling firms, notably Messrs. Rank, will be subject to a quota and obliged to pay 3s. a sack for the privilege of exceeding it. The small inland mills, which cannot be worked economically, are to receive a subsidy, and flour is to be imported under licence until the local mills are able to meet the requirements of the country. At present the Free State mills only produce half the flour used here, and unless the Government exercise their power to restrict imports with great caution, the price of flour is bound to rise. To counteract this and similar results from the other tariffs, the Government have introduced a Bill which empowers the Minister of Industry and Commerce to set up a control board and to fix prices for every commodity used for the purpose of food, clothing, or as material for clothing or fuel, and any other commodity which may be scheduled by the Government. There is also to be a food prices commission and a controller of prices, with various elaborate powers and penalties to enforce their decisions. It is clear that the Government is vainly seeking a way of escape from its own folly, but one more bureaucratic experiment is hardly likely to improve the lot of the unfortunate individual, cynically described by Mr. McEntee as "Sean Citizen," upon whom this vicious circle of high tariffs and extortionate taxation is slowly but surely closing. "Sean" can, of course, rejoice in the fact that he is the raw material for the experiments in social legislation that Mr. de Valera vaguely adumbrates, and which seem to be a cross between what used to be called

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Christian Socialism and the most virulent kind of economic nationalism so strongly condemned in the Pope's recent encyclical. Moreover, he can further console himself with Mr. de Valera's discovery that, when all is said and done, it is the people of this country who constitute, for the time being at any rate, the real Ireland, and who must, therefore, pay for his visions of a Gaelic Utopia.

### III. THE EUCHARISTIC CONGRESS AND AFTER

**N**O one visiting Dublin during the week which began on June 20 could have believed that the Free State was in the throes of a grave political crisis. A city gay with flags under the summer sun and thronged with cosmopolitan crowds for the thirty-first Eucharistic Congress and fifteenth centenary of St. Patrick's coming to Ireland, forgot, for the moment at all events, its national cares. The events of the crowded week included a great garden party given by the Irish Catholic hierarchy, a State reception by the Free State Government at Dublin Castle, and the Pontifical High Mass in the Phoenix Park, at which over a million people demonstrated the deep fervour of their faith. By universal consent this Congress, both on its religious and spectacular sides, eclipsed all its predecessors, and was a remarkable example of efficient organisation. There is probably no public place in Europe more suitable for such a ceremony than the Phoenix Park, with its thousands of acres of greensward fringed with trees and backed by the soft loom of the Wicklow hills. Here, at a beautiful altar, specially erected for the occasion, the main celebrations took place. The Papal Legate, Cardinal Lauri, was received with royal honours, and his arrival and departure took place amidst scenes of great enthusiasm. All the elements in Irish life contributed to the success of the proceedings, for it was essentially an Irish celebration, a hosting of the Gael from every country under the sun.

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The leading political and public men carried the canopy over the Blessed Sacrament in the final procession, and Irish genius in art and music gave of its best to the ceremonial. Yet the observer who was conscious of the deeper spiritual realities had to ask himself the question, what marks this outpouring of religious feeling would leave on our life and national outlook? Such questions must have stirred many hearts, and indeed found expression in a remarkable address given during the proceedings by the Most Reverend John Glennon, Archbishop of St. Louis, U.S.A., who is himself of Irish descent. The Archbishop appealed to the Irish people to forget the past.

"How can we approach the altar of love," he said, "if we have hatred in our hearts, or how return therefrom if our hands are raised against our brother? It may be true, as history tells us, that a people long oppressed becomes suspicious and full of hate, and, though we know that the seeds of ill-will are not all of Ireland's planting, still may we not hope that as these days of oppression are over, so will end the hatreds they engendered, and Ireland, enjoying to-day a broader freedom, and breathing a freer air, shall cast away, as her risen Saviour did, the cement of hatred that bind her?"

This noble appeal, as far as some of our political leaders are concerned, seems to have unfortunately fallen on deaf ears. Even the proceedings of the Congress itself were marred by the obtrusion of political prejudice. Mr. de Valera's Government issued no invitation to the Governor-General to attend the State reception at which the Papal Legate was officially welcomed. He was, however, given his proper place at the purely ecclesiastical functions. This was not the first occasion on which the Government have sought to humiliate Mr. MacNeill, for on April 24 two Ministers left a reception given at the French Minister's house because he was properly received with royal honours. For this boorish conduct the Government had subsequently to apologise to the French Minister, but when the Governor-General asked for an apology all he could obtain from Mr. de Valera was a statement that

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the "whole affair was unfortunate and regrettable, and one that should not have been permitted to occur." On July 10 the Governor-General handed to the press the correspondence between himself and Mr. de Valera, which the Government first tried to suppress illegally under the Official Secrets Act, and finally released for publication when the letters had already been published in the English press. This correspondence showed that the Government, by a policy of calculated petty insults, had attempted to humiliate the Governor-General and to degrade his office. He was practically forbidden to ask distinguished foreign Catholics to be his guests during Congress week, and when it was known that he was attending the reception given to the Papal Legate by the Lord Mayor of Dublin, the Minister for Defence refused to permit the Army Band to perform. No wonder that Mr. MacNeill intimated that he should either receive an apology or be removed from his office.

Everyone knows, of course, that the insult is not intended for Mr. MacNeill himself, who is a quiet, courteous gentleman, but for the office that he holds. The issue which this correspondence raises is one, indeed, which goes to the root of the present situation. Briefly, it raises the question whether Mr. de Valera and his Ministers are prepared to observe the constitution in the spirit as well as in the letter. The King is the head of the Irish Free State, and, as such, his representative should be treated with honour and respect. The same unChristian bitterness was revealed in the attacks by organised bands of hooligans, in several parts of Northern Ireland, on the Catholic pilgrims going to and returning from the Eucharistic Congress. This disgraceful conduct was duly condemned by the Northern Government, but it illustrates only too well the bigotry that passes for religion in some parts of Ireland.

The Irish Free State.

August, 1932.

## THE CRISIS IN CENTRAL EUROPE

THE title of the present article, at any rate, can make no claims to originality. It must have headed innumerable contributions to the press since the Peace Treaties set their seal on the break-up of the old order. Central Europe, a term which for the sake of convenience will be taken to include both the groups mentioned in the next paragraph, has never enjoyed a condition of normal healthy equilibrium in the post-war era, and has generally suffered from acute maladies in one or more of its constituent members. It is scarcely necessary to elaborate the reasons for this state of affairs, the majority of which fall under that convenient phrase "the Balkanisation of Europe." The purpose of this article is rather to analyse the present situation in the various countries and to examine some of the remedies which have been put forward.

Since the war the countries of central Europe have formed, both in a political and to a considerable extent also in an economic sense, two distinct groups—the victors, or rather those who benefited by the victory, and the vanquished. On the one hand Czecho-Slovakia, Roumania and Jugo-Slavia, the little Entente; on the other Germany, Austria and Hungary (Poland and Bulgaria may be included or not in their appropriate groups according to taste), one group endeavouring with the support of France at all costs to maintain the political *status quo*; the other refusing finally to acknowledge it. From an economic point of view the similarity is most marked between the defeated countries. In May, 1931, shortly after the difficulties of the Credit-Anstalt had become public, a German banking friend of the writer's pointed out how in all the critical

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developments since 1914 Austria had led the way and Germany had followed. Political collapse; military collapse; revolution; inflationary crisis; stabilisation crisis; and now banking crisis. Two months afterwards his prophecy came true. Hungary, although she differs from Germany and Austria in being almost entirely agricultural, has had a very similar history. This similarity of economic development in the defeated countries was, curiously enough, partly if not mainly due to a factor which is the precise counterpart of their political attitude—refusal or inability to accept the economic limitations and the immense reduction in their standard of living that would have been the natural consequence of the political settlement. It is true that in Austria and Hungary the economic limitations were mainly the result of territorial losses and tariff barriers, while in Germany their primary cause was the pressure of reparations. But this is immaterial. Both the excessive post-war inflation—*inflation is always a refusal to face facts*—and the over-borrowing which characterised the period 1924-1929 in these countries were attributable to this cause. Germany hoped by borrowing so to expand her apparatus of production that reparations could be paid without sacrificing the standard of living, of course realising that she was creating a vested interest in the abolition of reparations if things went wrong. Hungary under Bethlen borrowed to maintain or improve the standard of living, to finance propaganda and to create a vested interest of foreign creditors in her situation. Austria borrowed just to carry on and support the dead-weight of Vienna as before. Loans were offered in plenty to these countries because they were well known, because of old banking connections, because of their good pre-war credit record, and, last but not least, because there was an almost absurd plethora of loanable funds. Now that the fall of world prices has about doubled the real burden, it is not difficult to see why excessive debt is the principal characteristic of their economic situation.

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The other group of countries have not over-borrowed—at least to nothing like the same extent. Having been poor and having grown richer if anything through the Peace Treaties, they had not the same incentive to hang on to an old standard of living. Moreover they were less well known ; their banking connections were less well developed ; in the case of Jugo-Slavia and Roumania their political and financial situation did not inspire confidence ; so that, except for the help periodically tendered by France and for some “reconstruction” loans, money was harder to come by. Czecho-Slovakia could probably have borrowed more but was too wisely governed to do so. The specific economic difficulties of Roumania and Jugo-Slavia are thus mainly due to low agricultural prices and incidentally to financial and political misgovernment as exemplified in Professor Rist’s report on Roumanian finance, which will be dealt with later ; those of Czecho-Slovakia to the difficulty of disposing of her manufactured products ; while all central European countries alike are suffering intensely and likely to suffer still more from the virtual throttling of trade through a new factor, which has become far more important than tariffs, namely government control of foreign exchange—an outcome of the financial crisis. The whole situation, both from the political and the economic points of view, is overshadowed by the division described above and by the conflict of interests between France and Germany, which has hitherto succeeded in preventing anything being done at all. A Franco-German understanding must inevitably be the corner-stone of any reconstruction of central Europe.

### II. THE PLIGHT OF THE DIFFERENT COUNTRIES

TURNING to the individual countries, Germany takes the first place as a matter of course. She is not only by far the most important country but she is to-day in process of making history, both political and economic.

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The paramount factor in the economic situation of Germany to-day is the problem of debts, and particularly of foreign debts. The Lausanne settlement, which is dealt with in another article, is the legal acknowledgment of an undoubted fact, namely that Germany neither can nor will make any substantial payments on her political debt. Can she and will she meet her commercial obligations? This depends mainly on two connected factors: the possibility of maintaining a sufficient international trading surplus, and the possibility, under the strain caused by the efforts to maintain that surplus, of keeping the German economic machine going, with a standard of living which does not provoke uncontrollable political reaction. The most authoritative statement of the position is to be found in the Report of the Special Advisory Committee convened under the Young Plan at Basle in December, 1931. The figures presented by the German delegation to the Committee estimate the gross foreign indebtedness (including foreign shareholdings and participations) as at the end of July, 1931, to have been about 30 milliard Reichmarks, or £1,500 million at par.\* Of this huge total, some £600 million was owed at short term. Taking into account the heavy repayments after the date mentioned, the Committee estimated the annual service of the debt (interest and amortisation) at from £80 to £90 million. It further estimated the German receipts on foreign investments at from £15 to £20 million. The net service (without repayment of short term debt) to be met in the balance of payments may thus be put at between £60 and £75 million. In 1931, when immense efforts were being made to repay debt by exceptional liquidation, and in fact nearly £250 million of capital were withdrawn, Germany achieved a record export surplus (including service of about £5 million) of over £150 million. The Basle Committee pointed out that the circumstances were exceptional

\* All currency amounts in this article have been converted into Sterling at par.

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and that this could not be kept up. The Committee was right. For the six months January-June, 1932, the export surplus totalled about £30 million, or a monthly average of £5 million as against the £12 million in 1931. Nevertheless, taking the minimum estimate of debt service requirements given by the Committee (which for a reason to be given later is more likely to be correct), *i.e.*, £60 million per annum, the present export surplus of £5 million per month will be seen to be sufficient. It must be admitted that both the May and June figures were below the average level (£4½ million in June), but if services be included Germany is still making ends meet.

This is no mean achievement in a period of intense crisis and bears comparison with that of any debtor country in the world. The efforts of other central European countries like Austria and Hungary, as will be seen later, will not bear comparison. Within the comparatively short space of five years an annual import surplus of some £200 million was turned into an annual export surplus of £150 million in 1931, and in the teeth of an unparalleled throttling of trade a surplus at the rate of £60 million per annum is still being maintained. How has this been done? By a ruthless economic contraction involving what is probably the heaviest unemployment in the world. The reductions of salaries, wages and unemployment relief enforced by governmental decrees and natural economic pressure vary approximately between 20 per cent. and 50 per cent., with a rough average of, say, 35 per cent. In estimating the practical effects of this, it should be remembered that owing to heavy agricultural protection the cost of staple articles of working-class consumption has fallen very much less than in most other countries. Even the official cost-of-living index, which has probably a certain bias in order to make wage reductions more palatable, has only fallen about 15 per cent. from the 1929 peak. At the present time, when employment is normally at its best, about 5½ millions, or over a quarter of the total working population, are out of work.

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Under the German dole system, these step gradually down the scale according to the duration of their unemployment, and when they reach the lowest grade their income is about a quarter or less of their wage in employment. Large numbers of the population are thus in a state of semi-starvation. The index of production (1928 average=100) fell to 53 in January last. Nearly half the industrial life of Germany had stopped. German industry, by going in for a programme of "rationalisation" on credit, made it impossible to work at a profit unless production were maintained at a high level. This is just what has proved impossible and, as in the United States, it has resulted in a sort of creeping paralysis. The efforts, by economies, to adjust individual businesses to the situation merely accelerate the general deflation. Nor is agriculture, in spite of a protection which maintains the prices of staple products at two to three times the world market figures, in better case. Having contracted debts at high rates of interest when prices were high, it now finds it more or less impossible to earn sufficient to meet the interest, and measures of protection and financial relief, amounting almost to a moratorium, have been taken to prevent a general collapse.

Hand in hand with this unparalleled process of economic contraction has gone an increasing interference by the State in every department of economic life. The Social Democrats may perhaps find some consolation for their political defeats in the astonishing progress that Berlin has made towards Moscow. The State largely controls and owns the banks (and through them a vast proportion of German industry), the shipping trade and the heavy industries. Through the "foreign exchange regulations" it has a control over foreign trade which is not far short of that enjoyed through the Russian foreign trade monopoly. It dictates wages and hours, the level of interest rates (by arbitrary reductions), when and to what extent debts may be repaid, the level of rents, to some extent the level of prices, the flow of capital and the organisation of private

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enterprise. It did not do this as a chosen policy, but mainly as the enforced result of its initial efforts to save the machinery of private enterprise from collapse under the strain.

Through all this, the "gold standard," or what has been better described as a "ghastly parody of a gold standard," has been maintained. The German foreign exchange regulations which have achieved this result are the most efficient in the world. There is very little "black market" for marks. The Germans boast of their *eiserner Vorhang* (iron curtain). All foreign exchange must be delivered to the Reichsbank, which doles it out in co-operation with a government department, the "Foreign Exchange Authority," to importers or debtors. Hitherto interest and contractual amortisation or long-term debts have been permitted to be transferred, but capital repayments have been forbidden except in special circumstances (under the Standstill Agreement, etc.). The German organisation has served as a model for those of other countries, which will be dealt with later. Rightly or wrongly, the Germans felt that the disadvantages and dangers of abandoning their gold "parity" outweighed the advantages. They feared an inflationary panic on the part of the population (which well remembers the recent inflation and knows exactly what to do). Moreover, German debts are mainly in gold currencies or on a gold basis, so that the automatic alleviation of debt which was an important result of Great Britain's abandonment of the gold standard, would not have taken place. Now that the British experiment appears to be successful, they envy Great Britain, but are unlikely to follow her example, at any rate for the present.

As a necessary part of the German effort to avoid inflation at all costs, the Reich budget has been kept more or less balanced. Disregarding the Treasury bills issued for the support of the banks, the floating debt has actually been reduced since 1930. This has been achieved partly by economies and partly as a result of the German system

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which tends to throw the burden of unemployment relief more and more on the local authorities. These have almost without exception large deficits, and very few are solvent.

The financial situation remains one of intense strain, largely owing to the drain of foreign exchange abroad. The Reichsbank reserve of gold and foreign currencies has dropped from about £130 million in 1930 to less than £45 million, and it is still falling. The Bank Rate is 5 per cent. and overdrafts cost about 8 per cent., so that there is no sign of cheap money alleviating the economic situation, as elsewhere. The long-term rate, calculated on a basis of market prices, is about 10-12 per cent., but in fact, long-term money is virtually unobtainable.

In view of the situation described above, it is not surprising that there should be a growing demand for revision of private debts, which shows signs of becoming a plank in the programme of the Right parties, contrary to most of their previous declarations. Politically this is based on the argument that most of the money Germany borrowed abroad went in "tribute," the borrowing being a consequence of the pressure to pay reparations. Economically, the two main arguments are the fall in prices (and thus increased burden of debt) and the trade barriers to Germany's exports. The Reichscreditgesellschaft, a Government-owned bank, points out the impossibility of debtor countries making payments unless creditor countries are willing to take goods, and openly advocates the reduction or partial suspension, by mutual agreement, of the interest on foreign loans. Herr Hugenberg, the Nationalist leader, is said to have a plan to reduce interest on all debts, including foreign debts, to 2 per cent. As in December last the interest on all internal German securities was by decree limited to 6 per cent., such action is merely a question of degree. Had the Lausanne Conference been a failure the Germans would undoubtedly have declared a transfer moratorium. They will now probably reserve their fire

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till the World Economic Conference in the autumn. Unless this Conference does something very drastic towards increasing trade and raising prices, a revision of German private debts will probably be inevitable.

In the meantime, however, as is fortunately usual in economic development, a natural correction to over-indebtedness has appeared in the shape of repurchase of obligations at absurdly low levels. A great many German securities, sound from an internal point of view, are quoted on foreign markets at a quarter to a third of their par value. They have been and still are being repurchased in large quantities by Germans. This has been done partly in defiance of the foreign exchange regulations; partly legally, and partly by evasion with the connivance of the authorities. A well-known European banker told the writer that he put the rate of such repurchase at some £25 million per annum in cash, which would represent nearly £70 million per annum par value. This, if continued, would soon make an impression even on the huge total of German foreign debt, which must already have been largely reduced by the capital repayments made last year. At a rough estimate it would repay the total debt in ten years or less. In this connection it is interesting to note that the Reichs-creditgesellschaft, while advocating a reduction of interest, wished in no circumstances to interfere with amortisation, but rather to accelerate it. A vision of a Germany largely free from foreign debt both political and commercial arises. It is by no means an impossible one.

The political situation, with the tremendous swing to the Right which has characterised the last two years, is partly the product of economic distress and unemployment, but this is by no means the whole story. The parrot-cry of the Nazis, and indeed of the whole Right—"Down with the Weimar system"—expresses a deep-seated and growing reaction against the Constitution, the men who worked it, and the whole structure of society in Germany since the war. It is this reaction which gives real popular appeal to

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Hitler's vague talk about the "Third Reich"; to anti-Semitism, since the influence of the Jews, as the cleverest, most adaptable and hence richest section of the population since the old order was broken up, has been enormous; to "anti-Marxism," by which is meant the fight against the trade unions and their leaders whose position and influence were established through the Revolution; and in general to most of the wild talk with which Nazi speeches and propaganda are filled. The anti-foreign and anti-Versailles talk of which so much has been made abroad really plays an auxiliary rôle; naturally the Versailles settlement and reparations were intensely unpopular, and this unpopularity was exploited by the "National Movement." But in reality practically all Germans think alike on this subject, the only differences being of method and even then in practice not amounting to very much. What then is the National Movement aiming at? What do the 14 millions of Nazi voters want? They do not really know, apart from the fact that they want a change. What do the Nazi leaders want? Mainly to get the previous holders of office out wherever possible and substitute their own men, who by now are impatient to enjoy the fruits of their propagandist labours.

Herr Hitler and his followers probably hoped to attain their ends all over Germany this year. Their electoral gains were enormous. Hitler secured 14 million votes in the Presidential elections as against 6 million in the Reichstag elections of 1930. It looked as though the movement were irresistible. Had Dr. Brüning's Government with its Socialist support and the Prussian Centre-Socialist coalition remained in power, it would very probably have been so. Even had absolute electoral success not been achieved, a Nazi-Nationalist *Putsch* might have found the Reichswehr lukewarm in its support of what many soldiers looked up on as a "Marxist" régime. Then, with nearly half the population behind him, Hitler's position might have been that of a Mussolini. But a man of whom very little has been heard

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until recently went to President von Hindenburg, and Dr. Brüning's resignation resulted. General von Schleicher, sometimes known as the "Field-grey Eminence," is now said to be the real ruler of Germany. However that may be, the Papen-Schleicher Government, the personal choice of the President, may well turn out, despite the bitter attacks of Republicans, to have saved—by stretching—the incredibly elastic German Constitution. They have no parliamentary support, yet in a sense may be said to have won the elections. These have resulted in stalemate, as in Prussia. The Nazis and Nationalists, even with the support of the minor parties which sympathise with their aims, have no clear majority. The Centre has in a sense the key position, but it cannot co-operate with the Left, since the Communists and the Right could throw any such combination out. In practice, it has merely the choice between tolerating the Papen-Schleicher Government or creating a deadlock in which that Government would be the only possible way of carrying on business.

Negotiations have been in progress for a reconstruction of the Cabinet with Nazi participation. On August 9, the President, who still insists on a Government independent of party, offered Hitler important posts, including, it is understood, the vice-chancellorship. This offer the latter declined, demanding, according to an authoritative account, not merely the chancellorship but "the same position as Mussolini received after the march on Rome," a demand which the President peremptorily refused. The Nazis are apparently afraid of assuming responsibility without control. Nevertheless, if they repudiate responsibility and go into opposition, while von Papen and von Schleicher, resting securely on the Reichswehr and police, strengthen their hold on the country, they run a grave risk of losing popular support and of splitting into extremists and moderates. Whatever they do, this split is a danger, but one which certainly need not be lamented. It will be interesting to see whether the process of "turning

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the national movement to practical use," a declared object of the present Government, will continue. Even if Hitler were to become Chancellor, the Nazis would not have supreme control, since the old régime, which the present Government represents, are too experienced to be easily ousted. The crisis will come to a head when the Reichstag assembles towards the end of this month.

Whatever the dangers of the assumption of power by adherents of the old régime—and there is widespread distrust of them in France—it will, at all events, be a gain if Germany, despite the most acute political strife, obtains strong government for some time to come. If real leadership is shown, the natural tendency of the German people should be to fall into line.

*Austria.*—Austria has presented a more or less perennial problem since the Peace Treaties confined Vienna, a city of some 2 million inhabitants, within a small territory with a population of 6 millions. She has continually been "on the verge of collapse," but in fact has continued to exist. Vienna to-day may be a mere shadow of its former self, but it is still a very pleasant capital to live in, and distress is no more evident there than in many other European capitals, Berlin for example. How has this been possible? Probably because Austria has never yet really been brought up against the facts of her situation. Certainly at no time since the war has she been really self-supporting. Her problem being essentially one of foreign trade, the trade figures give the best indication of her position. Her average annual trading deficit has been about £30 million. Invisible exports (tourist traffic, services, etc.), which in Austria are considerable, are estimated to have reduced the deficit in the balance of payments to some £12 million, which has been covered by borrowing and by the gradual realisation of assets abroad (mainly in the Succession States). This in itself might not be serious did the Austrian figures show real elasticity under the strain of the crisis. In 1931, when Germany achieved a record export surplus, the Austrian adverse

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balance was still over £26 million, and the real deficit on the balance of payments, taking an optimistic estimate of invisibles, over £10 million. For the first six months of 1932 the adverse balance was about £11 million, so that, since the invisibles must have suffered a heavy reduction, the real deficit is still considerable. To this deficit, which will probably again not be far short of £10 million for 1932, should be added the service of foreign debt, roughly also £10 million. A change-over of some £20 million in the balance of payments is thus theoretically required. Since annual imports at the present rate would only total some £44 million and annual exports £23 million, the likelihood of this may be estimated. A change-over of £10 million (sufficient if there is complete default on debt) can be imagined, but, unless something very radical is done, the prospects of foreign creditors will not look rosy.

It cannot be said that Austria has made no efforts to redress this position. There has been reluctance to make the really drastic public and private economies that Germany has done. But of direct efforts to correct the trade balance there has been no lack. Foreign exchange regulations of the usual type has been in force since last autumn; clearing agreements have been made with various countries (and partly abandoned as unsatisfactory); there have been actual import prohibitions; and a tariff war with Hungary (surely a Gilbertian absurdity) has been started with the idea of correcting the trade balance with that particular country. But the result has merely been to decrease the total volume of trade, not appreciably to reduce the deficit.

In the meantime the official "gold standard" has been maintained. The National Bank and the private banks still only pay the par schilling value of foreign exchange handed to them (they virtually do not hand out foreign exchange at all). But since the schilling is quoted at a discount of about 25 per cent. on the international markets, trade is making use of other channels. These are the so-

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called "black market" and the private clearing arrangements between exporters and importers. The latter allow Austrian exporters to sell their foreign exchange to Austrian importers at the world market rate, and are a fruit of the policy of Dr. Kienböck, president of the National Bank, who first realised that if transactions were confined to the official rate trade would soon stop altogether. Absurd though it may seem, there is a certain logic in this policy. As long as the official rate for the currency is at par, internal debts, which are almost invariably on a gold basis, do not rise with the depreciation of the currency. Moreover, it may act as a certain check on inflationary panic by the population. At the same time the currency is, to some extent, allowed to find its own level. This represents a compromise which may be unsatisfactory, but has not yet produced the complete paralysis of trade which promised to be the result of the original policy.

The internal position of Austria is one of incipient inflation. All other means of financing public deficits are nearing exhaustion. Taxes can hardly be increased further, and borrowing is impossible. Both the 1930 and 1931 budgets closed with a deficit of about £8 million, and for the current year a further deficit is expected. This does not take account of local government bodies whose finances are in a catastrophic state. It seems virtually impossible to attain equilibrium on the present level. *The Economist* estimates that taxes have increased since 1924 by 55 per cent., without taking into account the fall in prices. Now prices are rising—the first sign of inflation. Although controlled inflation might alleviate the situation, can it be held in check when it arises from State deficits? The industrial situation is roughly analogous to that of Germany, which has been dealt with fully. Unemployment is rather less severe in proportion. The banking situation is overshadowed by the Credit-Anstalt, which owes about £20 million to the National Bank and about £14 million to foreign creditors (guaranteed by the Government). The

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standstill short-term debt of other banks is less than £4 million. Although the Bank Rate is 7 per cent. and interest rates are high, the National Bank is not really pursuing a deflationary policy for fear of the consequences to industry.

The whole situation being thus provisional and extremely precarious, and the foreign exchange reserves of the National Bank having declined to about £5½ million, the recent default on private debts is scarcely surprising. The "transfer moratorium" provides for the payment of the service of foreign debts, converted at the official rate, into a Schilling fund at the National Bank. In contrast to the situation in Hungary and Bulgaria, however, creditors will in general be free to use their schillings to purchase merchandise or to travel in Austria. The Trustees of the 1923 League loan have recently declared the Austrian default, which will certainly only be remedied if the proposed Government loan to Austria goes through.

The loan of £9 million represents the effort of the Powers to keep the Austrian problem in cold storage for the time being. It could not and does not pretend to be a permanent solution. The real question is whether Austria, in her post-war form, can ever, whatever is done for her, become a self-supporting economic entity. The old conditions of the 1922 League loan are again to be applied to the proposed loan, and these not only impose business guarantees in the shape of control, but also prohibit the *Anschluss* or, of course, since the Hague decision, even a customs union with Germany, for the currency of the loan, *i.e.*, for twenty years. There is, in consequence, naturally a strong opposition to the loan, and the Austrians are the less willing to accept it, as it is mainly intended to consolidate existing liabilities (including £3 million to the Bank of England) and to continue the service on other obligations. The Loan Bill has just been passed in committee, but only by the skin of its teeth, and it has still to be brought before the full session of the legislature. If the loan is, after all, accepted, it will undoubtedly ease

## The Plight of the Different Countries

the situation for a time, but it is essential that the Austrians themselves should take more drastic steps than they have as yet done to set their house in order.

*Hungary*.—Hungary, although an agricultural and largely self-supporting country, is in an even worse financial position than Austria. This is due partly to her own fault, since Count Bethlen's Government was grossly extravagant and encouraged over-borrowing, and partly to the agricultural slump. The total foreign debt is practically the same as that of Austria—£140 million. The annual service of this debt is about £11 million. Yet for the first five months of 1932 the total exports only amounted to £4½ million with imports of £5 million. Even with the sale of the harvest the total exports for the year are not likely to amount to more than from £12 to £13 million with a small export surplus. The comparative figures for 1931 were £20 million, with an export surplus of £600,000, and for 1930, £32 million, with a surplus of £3 million. Thus, as elsewhere, foreign exchange regulations and trade restrictions have merely contracted trade without improving the balance. There is a trade war with Czecho-Slovakia, which has practically reduced trade with that country to a barter of pigs against timber. A trade war with Austria is just beginning.

These figures and facts give some idea of the prospects of foreign creditors. Admittedly the latter have largely themselves to thank for lending such vast sums to a small agricultural country with few or no undeveloped resources. But there was an insidious propaganda in favour of Hungarian borrowing in London and New York, fostered by agents of the Hungarian Government (some of British nationality) who were equally active in the far-flung irredentist propaganda on which the money raised was partly spent. However that may be, it is scarcely surprising that Hungary should have been one of the first countries to introduce exchange restrictions and the first European country to suspend the transfer of foreign debt service.

## The Crisis in Central Europe

The Hungarian transfer suspension, declared last December, provided for the payment of the amounts due into a blocked account at the National Bank, which was to be disposed of in agreement with the creditors' representatives. It is extremely difficult to obtain permission for the utilisation of the amounts within Hungary, and as far as most creditors are concerned they might as well not be paid at all. They are theoretically creating an additional transfer problem, but in practice this is of little importance, since there is obviously no likelihood of more than a relatively small proportion of the full debt service ever being transferred at all. Hitherto the service of the 1924 League Reconstruction Loan (£14 million) has been met, but the Government has not provided the funds for the August coupon, which is being paid out of an old reserve. The Hungarian Government has issued a statement expressing its regret at the unavoidable suspension of transfers, and indicating its determination to reconstitute the reserve as soon as the exchange position improves. It hopes at any rate to be able to put the trustees in funds to meet the coupons up to and including the one due in August, 1933. This unqualified priority accorded to the League loan is causing great protest from investors in other securities.

Nevertheless, Hungary is laying even greater emphasis than Austria on the "gold standard." A rumour that Austria intended to devalue brought the most emphatic assurance from the Hungarian Government that it intended to do nothing of the sort. Yet, of course, a black market in exchange has developed, and in Budapest some business is reported at about half the nominal value of the currency. Hungarian policy does not, at least to the same extent as that of Austria, aim at taking advantage of the international discount of the pengo. The system of clearing agreements at par of exchange is working badly—as it did in Austria—owing to the rise in Hungarian prices, but private clearing arrangements are not yet encouraged. Nevertheless, a recent statement of the National Bank showed that only

## The Plight of the Different Countries

about half the foreign trade of the country was done under its control through surrender and allocation.

As in Austria, there is incipient inflation from the budget end. The quarterly report of Mr. Tyler, the League representative, gives the real total deficit for 1931-1932 at about £5 million, receipts being about £28 millions. Mr. Tyler blames the drain by the State undertakings and the practice of giving special relief to various sections of the population. The wheat and rye bounties, which are likely to have a serious effect on State finances, are a case in point. As already mentioned, prices are rising.

The present Hungarian administration under Count Karolyi is making strenuous efforts to maintain financial order, and Karolyi's attitude towards foreign creditors is markedly different from that of his predecessor, Count Bethlen. He is, however, having great difficulty in inducing the country, and particularly the ruling upper classes, to accept the reductions in their standard of living which are inevitable if the country is to pay its way at all, quite apart from making payments to its foreign creditors. The Hungarian problem is fundamentally one of over-indebtedness and of adjusting the standard of living. Whatever happens, the country cannot starve.

*Czecho-Slovakia.*—Czecho-Slovakia is undoubtedly financially and economically the soundest State in central Europe. She had no reparations to contend with, like Germany, no relatively large city to provide for, like Austria, no large and extravagant upper and middle class refusing to adapt its standard of living to economic necessities, like Hungary. Agriculture and industry are relatively well-balanced ; labour works well with low wages ; and the standard of industrial management is high. The country has borrowed relatively little from abroad and has maintained an active balance of trade since 1920. This balance amounted to over £10 million in 1930 and £8 million in 1931. The State finances are in a sound condition, there has been little public extravagance and the budget still

## The Crisis in Central Europe

balances. Foreign exchange regulations have had to be introduced, but these were really the result of the wealth of such regulations with which the country was surrounded. They were probably necessary in order to facilitate negotiations with the neighbouring countries. There has been no default on debt and there is no "standstill" banking arrangement. The political situation has been relatively stable since the war. Unfortunately the country can scarcely remain an island of prosperity if the present trade stagnation in central Europe continues. The bulk of her trade is done with her neighbours, particularly Germany, and all of them are endeavouring to cut imports in every way possible. Moreover, she is having the greatest difficulty in obtaining payment for such exports as she can still sell to the Danube States and she is engaged on a bitter tariff war with Hungary.

*Roumania.*—Mainly an agricultural country, Roumania has of course suffered considerably from the slump in agricultural prices which has produced great distress among the peasantry. There have also been serious banking difficulties, notably the failure of the famous House, Marmorosch, Blank & Co. The financial and budget situation is absolutely deplorable owing to the grossest mismanagement, not to say corruption. The report of Professor Rist, sent to investigate the situation at the request of the Roumanian Government, discloses a state of affairs which would disgrace a comic-opera Ruritania. In 1929 Roumania received an international stabilisation loan of some £22 million which she agreed to utilise according to a definite programme of stabilisation and reorganisation. She kept to practically none of the points of the programme. The promised budgetary control has been a dead letter and the uncovered deficit amounts to over £12 million, due mainly to the departments exceeding their definite monthly authorisations. Huge arrears have reappeared, many of which cannot be accounted for; State debts are left unpaid; the most indescribable financial muddle exists

## The Plight of the Different Countries

between the various departments and authorities ; the agreement to concentrate public funds at the National Bank has been disregarded ; and in the words of Professor Rist the fact that the stabilisation programme has failed to re-establish Roumanian domestic and foreign credit is due "not to economic difficulties, but exclusively to the unsound methods of financial administration." This situation, be it noted, has arisen in spite of the efforts of the foreign technical adviser to the National Bank. Investors in "reconstruction" loans should certainly read Professor Rist.

In view of this situation, a considerable flight of domestic capital developed in the early spring, which led to the imposition of exchange restrictions in May. Hitherto there has been no default on international debt, which consists practically entirely of State obligations. The annual service of this debt amounts to about £7 million. Both in 1930 and 1931 an export surplus of some £7½ million was achieved, total exports in 1930 being £35 million and in 1931 £27 million. But, as is to be expected, the figures for the current year show a further sharp contraction. Professor Rist points out that industrial development can contribute little to the balance of payments, and emphasises that the creditor countries will have to assure markets for the agricultural surplus.

*Jugo-Slavia.*—The economic situation of Jugo-Slavia is naturally similar to that of her agricultural neighbours. The same distress among the peasantry prevails ; there are foreign exchange restrictions and a black bourse. The budgetary position is, however, relatively satisfactory—the deficit for the current year only amounting to about £500,000. The foreign trade position shows the usual contraction. The total volume for the first five months of 1932 was only £8 million as against nearly double that amount in 1931. Until that year, when imports and exports nearly balanced at £18 million each, there has been an import surplus. However, Jugo-Slavia has com-

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pensions in the form of tourist revenue and her balance of payments does not present an insuperable problem. The annual service of the State debts (excluding war debts) which are mainly owed abroad and are by far the largest item in the total foreign debt, only amounts to about £4 million, surely not an excessive burden for a country of 14 million inhabitants. Default on this debt has hitherto been avoided. According to the latest reports there appears to be some improvement of business. Clearing agreements with Czecho-Slovakia, Switzerland and Italy have helped to ease the black bourse and to make foreign currencies more obtainable than previously. There is a monarchist-military dictatorship and the underlying political situation, complicated by the eternal animosity between Serbs and Croats, is exceedingly strained.

### III. SUGGESTED REMEDIES

UNDER the pressure of the crisis various remedies have been put forward. The first was the ill-fated Schober-Curtius customs union—a first step towards the *Anschluss*. This would, at any rate, have solved the Austrian problem. At least an Austria merged in Germany would merely have become a small part of the German problem. The *Anschluss* would be an outlet for German energies—there is plenty to be done in clearing up the Austrian muddle ; it would increase the South German Catholic influence in Germany ; and the very reluctance of the Conservative Prussian elements to consider it shows that it would weaken, not strengthen, Germany as a striking force. But the customs union was scotched by France and her satellites for political reasons. The Tardieu Plan, which led to the London Conference this spring, may have been a belated recognition by the French that something had to be done for Austria, but certainly looked like an attempt to set up a central European group under French auspices,

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as a bar to the *Anschluss* and to Germany's economic penetration in south-eastern Europe. Its main feature was a scheme of preference between the five Danubian States—Austria, Hungary, Czechoslovakia, Jugo-Slavia and Roumania—upon which the seal was to be set by the grant of international financial assistance. When the London Conference broke up, mainly on the rock of Herr von Bülow's resistance, M. Tardieu, asked what would happen, is reported to have said: "We shall watch the revivifying stream of capital flowing from Germany to Austria and Hungary!"

The Tardieu plan was, of course, based on the old idea of a Danubian customs federation, whose simplicity and apparent logic gives it a specious popular appeal. But as Mr. Gedye clearly showed,\* it is not only impossible to reconstruct the Hapsburg territory out of the States existing to-day, but even if it were possible the economic development which has gone on since the war would result in anything but a balanced unit being attained. In a recent number of the *Economist*, a writer pointed out that during five years of relative prosperity the Danubian countries made not the slightest move towards sacrificing uneconomical industries and artificially fostered agriculture, and asked whether now with their enormous unemployment and catastrophic financial position they were in a position to do so? But perhaps the most weighty factor is the enormous and growing importance of German trade for the five countries concerned in the Tardieu Plan. While inter-Danubian trade has declined from about 36 per cent. of their total international trade in 1923 to about 28 per cent. in 1931, the trade of Germany with these countries has increased from about 10 per cent. to nearly 25 per cent. of the total. In view of this development it seems idle to expect Germany to acquiesce willingly in being kept out of a *bloc* in which she has gained such a foothold. Moreover the Tardieu *bloc* would have a very

\* See an article in *The Contemporary Review*, May 1932.

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large surplus of agricultural produce which would have to be sold outside. The obvious markets for this surplus are Germany and Italy, both of which countries would clearly refuse to absorb it if their own trade is subjected to discrimination at the same time. France, on the other hand, can do little to help. Her trade with the Danubian countries is relatively infinitesimal. It is indeed obvious that no real solution of the problem is possible without the whole-hearted co-operation of Germany. The *Anschluss* is banned for the present. But the gradual extension of German trade and influence, which would be the natural way of ensuring economic reconstruction and would provide Germany with an outlet for her energies which she badly needs, must be provided for. If France, taking the view of her financial strength implied in the words of M. Tardieu quoted above, obstructs any solution which recognises Germany's legitimate interests, there is no hope of a solution at all. In any case there is no simple wonder-working nostrum, and the progress towards recovery can only be slow.

The first and most important thing is to secure the abolition of the currency restrictions with which the central European countries are strangling what trade remains to them. The longer this state of affairs continues, the more difficult it will be to remedy it. Apart from Germany, whose deflationary measures are unique in modern economic history, and Czecho-Slovakia, they are willing neither to adjust their international position by stringent economy and deflation nor by permitting currency devaluation. The reluctance of countries which have known inflation to run the risk of going through it again is comprehensible, but economic forces are bound to prove too strong in the long run. Perhaps developments in Austria point the way out. A wide black market and private clearing arrangements between importers and exporters at the international rate for the currency are helping to save the situation, in spite of the nominal par quoted by the National

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Bank. This creates a situation which can be recognised in time by official devaluation. If the authorities in other countries learn to wink as well as the Austrians, the situation may yet be saved, in spite of the influence of the Financial Committee of the League which has largely been exerted towards making exchange restrictions watertight in order to obtain exchange for the service of League loans.

The whole trouble is that no one is really prepared to face facts. Creditors will not yet recognise that a large part of the money lent to central Europe is lost, and that the sooner this receives practical recognition in the shape of reduced interest and capital, the better will be the chance of saving the rest. A policy of throwing good money after bad—like the new League loan to Austria—will not save much and may lose more. On the other hand, central European countries will not face either the real depreciation in their currencies or the rigid deflation necessary if their currencies are to be saved. The French will not face up to the perfectly legitimate German interests in central Europe, and the Germans will not face the necessity of coming to some sort of working agreement with France. This is the key to the situation. A combination of German trade and French finance might put central Europe on its feet. And it may be that a Franco-German understanding is nearer than most people imagine. As long as there was a large and growing Right Opposition in Germany, no Government supported by the Left could make any concessions to France. But a Right Government might. It should not be forgotten that the Papen-Schleicher Government signed the Lausanne Agreement, and has hitherto behaved with studied moderation.

## THE UNITED STATES BEFORE THE ELECTION

THE *Annus Irae* is half over. We are in the last days of what a sardonic writer has termed Year III of the Abolition of Poverty. The process of deflation has gone on. Deflation is the pet word of the economists—to laymen it is more like a desiccation or a blight. We seem to have stepped Alice-like through an economic looking-glass into a world where everything shrivels. Bond prices, stock prices, commodity prices, employment—they all dwindle. One recalls the skin of the wild ass in Balzac's novel diminishing with every desire of its owner. Is it any wonder that, in such a world, men should be overhung by a sense of impending calamity? What, one inquires, can revitalize a world in this uncanny decay? What can cure the Black Death of the industrial twentieth century? What a pity that we cannot send Mr. Hoover to Delphi to learn some act of atonement to placate the implacable gods. But their ways are past finding out and their pleasure past learning. Plainly economists, like Mr. Maynard Keynes and Mr. Stuart Chase, cannot sit on the same tripod with our bankers and financiers. And the senators and representatives are not looking at people on tripods but at people in polling booths.

Statistically speaking—and everybody is speaking statistically nowadays—the story of the last twelve months may be told somewhat as follows:—

	June 30, 1931	December 31, 1931	June 30, 1932
Average of industrial stocks*	151.48	77.90	42.84
Average of railroad stocks	85.02	33.63	13.43

\* What we call shares are called stocks in America.

## The United States before the Election

	June 30, 1931	December 31, 1931	June 30, 1932
Average of utility stocks	60·81	31·41	17·08
Average of 40 bonds	95·46	77·77	69·62
Price of copper	8½ c.	7½ c.	5¾ c.
Wheat	56½ c.	55½ c.	47½ c.
Cotton	9·83	6·44	5·63
Rubber (No. 1 standard)	6·65	4·80	2·59

And bear in mind that the figures for June 30, 1931, reflected already some twenty-one months of violently falling prices.

The composite index known as the "business thermometer" on June 30 stood at 53 per cent. of normal as against 58 per cent. for the week ended April 23 mentioned in *THE ROUND TABLE* for June.\* June 30 approximates the low point of the depression to date. And yet the motto of the market place, unlike the aspiring mottoes of our youth, appeared still to be *ad inferiora*.

Well, perhaps not. Everything is obscure. Much is contradictory. There has been, for example, on the side of evil a new outburst of bank failures with its nucleus in Chicago. Set off against this that the price of hogs which means so much to the great agricultural communities has doubled in a few weeks. For instance, one can feel a sort of lyric ecstasy over the following homely news item from Chicago :—†

Top price of \$5.10 a hundred pounds was recorded on hogs in an active market, a gain of 5 cents over the early morning peak and 20 cents above Thursday's practical high. Most swine sold 10 cents to 15 cents higher with 180-240 pound weights ranging at \$4.00 to \$5.05. Plainer kinds and packing sows sold at steady levels to 10 cents higher. Provisions were firm to slightly higher.

The big packers have been more active buyers this week than in nearly two months. Shippers on the other hand were less interested in the market with the result that pigs are going at the largest discounts. The three big packers, Armour, Swift and Wilson, have

\* *THE ROUND TABLE*, No. 87, June 1932, p. 520.

† *Wall Street Journal*, July 23, 1932.

## The United States before the Election

bought more than 18,000 hogs up to the middle of this week against only 9,000 a week earlier and but 1,000 hogs in the comparative period two weeks ago.

Commodity prices have improved recently in sugar, rubber and oil. But chain store sales are making new lows. Business is worse. Bankruptcies are increasing. Failures for the single week ending July 16 totalled 650. But "sentiment" is better. What does "sentiment" matter? Certainly the watchword of 1930 that prosperity was "right around the corner" didn't bring us to prosperity. There must be more than hope or sentiment to bring recovery. But on the other hand some mitigation of despair would help. Speaking of school mottoes, there is *Possunt quia posse videntur*. There is something to be said for that Virgilian tag.

## II. RELIEF LEGISLATION

CONGRESS adjourned on July 16 after scaring nearly everyone out of what wits he had left with strange projects of legislation. For eight months or so our whole legislative structure was racked and strained almost as badly as our banking and financial structure. In the last five months of the session after the creation of the Reconstruction Finance Corporation and the Glass Steagall Bill enlarging the rediscount privileges of the Federal Reserve Bank, Congress sank to almost unprecedented depths of public disesteem. It is not surprising that in such times as these political discontent rises. It is surprising on the whole that it has not yet risen higher. Actually the record of Congress in legislation has not been bad. The Goldsborough Bill to restore the lower purchasing power of the pre-depression dollar perished in the Senate. The budget has been balanced after a fashion by the enactment of a new tax Bill which increases import levies, income, and estate taxes, lowers exemptions on the

## Relief Legislation

income tax payable by married persons from \$3,500 to \$2,500, and on the tax payable by single persons from \$1,500 to \$1,000, raises ordinary postage from two cents to three, taxes checks, telephone and telegraph messages and levies a manufacturers' excise tax on gasoline, lubricating oils, automobiles and trucks, tires, toilet preparations and toothpastes, cameras, matches, chewing gum, candy, electrical energy, mineral waters, grape concentrate, malt syrup and brewers' wort. Just what the increased revenue will be obviously depends on business volumes and prices. Most authorities agree that the budget balancing is theoretical, that the expenses of government are still disproportionately high and that taxes constitute an excessive burden on our debilitated economy. But the moral value of facing the issue has been indisputable. At least the budget deficiency will be cut from the stupendous figure of nearly three billion dollars reached this year which was some \$762,000,000 in excess of Treasury estimates.

The "Bonus Expeditionary Force" of former veterans who marched to Washington to obtain immediate payment of the government bonus obligations maturing ten years hence are being dispersed without achieving their goal. Congress was creditably deaf to their entreaties. The Secretary of the Treasury aptly remarked that they were trying to get payment of a debt that was not due in money that was not real. Their demonstration may be prophetic of many in the months to come. Marching upon State and national capitals to call attention to this, that and the other is likely to become a favorite pastime next winter. It will be hard doubtless for legislatures and executives to take a fair course between truckling and fierce repression. This particular onslaught of the bonus army seems to have been met with commendable energy and tact. But Government generosity to ex-service men has passed the point where it can be justified on any principle save that of vote getting. Veterans' relief will constitute 26 per

## The United States before the Election

cent. of all federal expenditure for the next fiscal year. Similar expenditure in Britain accounts for less than 6 per cent. of the budget and in France for less than 18 per cent., though both countries had far more men under arms, both relatively and absolutely, than the United States.

In the last hours of Congress after the passage of a relief Bill vetoed by President Hoover, a new Bill entitled the "Emergency Relief and Construction Act of 1932" was passed and signed by the President. This Act adds \$2,122,000,000 to the sums made available by measures already taken to cope with the depression. \$300,000,000 is made available to the Reconstruction Finance Corporation for relief work in the several States. Another \$322,000,000 is tossed in for "self-liquidating" public works. And the balance of a billion and a half goes to the Reconstruction Finance Corporation for loans to States, municipalities, public agencies and public corporations to aid in financing projects authorized by federal or State law. The field of the Reconstruction Finance Corporation is broadened to provide assistance in the exportation of agricultural and other products.

Also a new Home Loan Bank Bill has passed both branches of Congress and obtained the President's approval. This Bill provides not merely for a system of financing home building through eight to twelve banks with a total capital of \$125,000,000, but also for a temporary currency inflation by authorizing national banks to use government bonds bearing interest up to 3½ per cent. as security for new issues of currency. This provision is limited to three years. It is believed that currency expansion thereunder may reach a billion dollars.

President Hoover has heartily commended this Home Loan Bank Bill, which is one of the measures advocated in his programme of last November. Both this Bill and the relief Bill are frankly inflationary in character. Neither measure could have been passed a year ago. But these are not moments for petty consistency. We move on from

## Rays of Hope

crisis to crisis, muddling undoubtedly and hoping that we shall somehow muddle through. That the Government has gone into business in wholly unprecedented ways and to a wholly unprecedented degree is obvious but generally ignored. Few projects of State socialism have ever been conceived upon a grander scale, but we are still doing lip-service to individualism, to competition, and to *laissez-faire*.

### III. RAYS OF HOPE

THE drain on our gold reserves has ceased and the “open market” operations of the Federal Reserve have had as their consequence the purchase of over a billion of government obligations. The result should be to force financial institutions into the bond market, where prices have in many cases already “discounted” disaster, and to set banks making loans instead of calling them. What effect, if any, the policy has so far had is obscure like everything else. But at any rate bond prices have risen notably in the last six weeks. A bond pool, the American Securities Investment Company, has been formed by the big New York banks, not to “support” the bond market but to make money. And this of course argues confidence in high quarters that capitalism will not perish or credit altogether fail. But we have had so many rays of hope blotted out by black clouds of disaster from every quarter of the heaven that we do our hoping very gingerly. Besides, we have learned that even in the highest quarters of Wall Street the capacity for foresight is imperfect.

Then there has been Lausanne. Everyone agrees that the relaxation of the impossible burdens laid upon Germany is hopeful and constructive. The progressive reductions of reparations from an original proposal in 1919 of 125 billion dollars to three-quarters of one billion sounds like the recession of stock prices from the 1929 highs. But the so-called gentleman’s agreement and the Anglo-French

## The United States before the Election

pact are viewed by press and politicians with varying degrees of suspicion. Senator Borah, Mr. Nicholas Murray Butler, and some of our best writers are outspoken for a corresponding reduction in the debts owed America. But it can scarcely be said that public opinion on this point has been brought to their view. Indeed, the National Democratic platform contains the following declaration :—

We oppose cancellation of the debts owing to the United States by foreign nations.

Certainly many Republicans would assent to this. But there can be no conclusive American answer to Lausanne until after the November elections. There is probably an increasing tendency to recognize the intimate relation of this settlement to the daily affairs of men the world over. Plainly American policy should be realistic.

## IV. THE PARTY CONVENTIONS

**F**INALLY we have had our party conventions. The Republicans met in Chicago on June 14 and did what was expected of them in renominating President Hoover and Vice-President Curtis. Undoubtedly the substance of their strategy will be an appeal to the electorate, in the language of Lincoln, not to swap horses while crossing the turbulent stream of the depression, or, as a wit observed, to swap barrels going over Niagara Falls. There is doubtless justice in this exhortation. What cogency it will have depends much on the economic developments of the next three months. If there is any improvement the Republicans will claim it as the fruits of their policy. Just as they are sure to attempt to profit from the unpopularity of a Democratic Congress. If our troubles multiply, the Democratic plaint will be the more persuasive.

The only hope (says their platform) for improving present conditions, restoring employment, affording permanent relief to the

## The Party Conventions

people, and bringing the nation back to its former proud position of domestic happiness and of financial, industrial, agricultural and commercial leadership in the world lies in a drastic change in economic and governmental policies.

The Democratic convention was called to order in Chicago on June 27. Franklin D. Roosevelt, Governor of New York, an office in which he immediately succeeded the preceding Democratic Presidential candidate "Al" Smith, was nominated for the Presidency on the fourth ballot after Mr. Woodrow Wilson's son-in-law, Mr. William G. McAdoo, had swung to Roosevelt the votes of the California delegation which had gone to Garner on the previous ballots. Texas, Garner's own State, was likewise released to Roosevelt, and John N. Garner, Speaker of the National House of Representatives, was nominated Vice-President. Though the famous two-thirds rule requiring nomination by two-thirds of the delegates and not by a mere majority was retained as in previous years, the contest for the nomination had none of the heat and color of the Democratic convention which perspired through 103 ballots to the nomination of John W. Davis in 1924. The outstanding political development of the pre-convention manœuvring was the newly arisen hostility between Mr. Roosevelt and Al Smith. How far this will be reflected in the November polling is uncertain. But schism has been a familiar Democratic phenomenon.

Actually the interest of the country has attached less to the respective party nominees than to the approach of each party to the harrowing question of the repeal of the eighteenth (prohibition) amendment to the federal constitution. After a long debate on the forthright repeal "plank" espoused by Mr. Nicholas Murray Butler, the Republican convention voted by a vote of 681 to 472 to adopt the following cautiously worded utterance:—

A nation-wide controversy over the eighteenth amendment now distracts attention from the constructive solution of many pressing national problems. The principle of national prohibition as embodied

## The United States before the Election

in the amendment was supported and opposed by members of both great political parties. It was submitted to the States by members of Congress of different political faith and ratified by State legislatures of different political majorities. It was not then and is not now a partisan political question.

Members of the Republican party hold different opinions with respect to it and no public official or member of the party should be pledged or forced to choose between his party affiliations and his honest convictions upon this question.

We do not favor a submission limited to the issue of retention or repeal. For the American nation never in its history has gone backward, and in this case the progress which has been thus far made must be preserved, while the evils must be eliminated.

We, therefore, believe that the people should have an opportunity to pass upon a proposed amendment the provision of which, while retaining in the Federal Government power to preserve the gains already made in dealing with the evils inherent in the liquor traffic, shall allow States to deal with the problem as their citizens may determine, but subject always to the power of the Federal Government to protect those States where prohibition may exist and safeguard our citizens everywhere from the return of the saloon and attendant abuses.

Such an amendment should be promptly submitted to the States by Congress, to be acted upon by State conventions called for that sole purpose in accordance with the provisions of Article V of the constitution, and adequately safeguarded so as to be truly representative.

The Democratic convention came out bluntly for repeal:—

We favor the repeal of the eighteenth amendment.

To effect such repeal, we demand that the Congress immediately propose a constitutional amendment to truly representative conventions in the States called to act solely on that proposal.

We urge the enactment of such measures by the several States as will actually promote temperance, effectively prevent the return of the saloon and bring the liquor traffic into the open under complete supervision and control by the States.

We demand that the Federal Government effectively exercise its power to enable the States to protect themselves against importation of intoxicating liquors in violation of their laws.

Pending repeal, we favor immediate modification of the Volstead Act to legalize the manufacture and sale of beer and other beverages of such alcoholic content as is permissible under the constitution and to provide therefrom a proper and needed revenue.

## The Party Conventions

The action of the two great political parties attests the widespread recognition of the fact that national prohibition has disappointed those who had hoped better things for the celebrated "experiment noble in motive." It is logical that, like better-established institutions, it should face the challenge of the new and disastrous conditions that now confront us. In the last few months there has been a notable trend of public opinion away from the amendment and a recognition of its practical shortcomings. Republicans who four years ago would have "stood pat" on the eighteenth amendment, voted at Chicago for resubmission as the only way to defeat the movement for repeal. The Democrats have for some time been predominantly in favor of repeal. They like to remind the country that Mr. Wilson foresaw many of the evils that national prohibition has brought in its train. At the Democratic convention the only States solidly to oppose repeal were Mississippi, Oklahoma and Georgia. Scattering "dry" sentiment came from the Pacific coast States, the agricultural middle west, Virginia, West Virginia, North Carolina, Ohio and Maine. In the Republican convention only a few State delegations (Wyoming, Arizona, Mississippi, Vermont and Connecticut) stood solidly for repeal. Most of the State delegations split. A dozen were solidly opposed.

Of course the balloting for President will not decide the fate of prohibition. The "wets," to use the conventional but misleading designation, will not all be for Roosevelt nor the "drys" for Hoover. In order to have genuine resubmission as advocated even in the Republican platform two-thirds of both branches of Congress must vote for a resolution to repeal the eighteenth amendment. This means that in many States there will be sharp contests for Congressional seats on the repeal issue. Much Congressional sentiment must be changed before the repeal resolution can be passed out to the several States. Only 187 Congressmen, out of 431, voted for the Beck Linthicum repeal resolution in Congress last winter. In the Senate,

## The United States before the Election

repeal sentiment has been even more backward. But Congressmen of all complexions will feel the pressure of popular sentiment this fall.

If the repeal resolution passes Congress it will have to be ratified in at least 36 States acting through their respective State legislatures or preferably through constitutional conventions created for the express purpose under Article V of the federal constitution. The advantage of the latter method is that it permits in effect a ballot on the sole issue of national prohibition uncomplicated by other questions.

Undoubtedly the result of a great and solemn referendum on prohibition would excite interest the world over. Though other nations have experimented with similar legislation, prohibition with all its anomalies has been so characteristically American that any modification of our national policy would work a real change, not only in our government and society, but in national characteristics which have been thought purely American.

Undoubtedly national unrest will help the cause of repeal. But repeal will be hampered by popular apprehension as to legislative alternatives in the several States and the difficulty of agreeing upon them.

## V. SOME DOUBTS AND QUERIES

IT is easy enough to write about the depression statistically, and probably statisticians have never in the whole history of the world had such a wide and glorious field for their endeavors. They are legion and they are good on the job. It is less easy to outline and appraise the efforts of the Administration and of Congress to stem and turn the tide of the depression though even here the task may not be beyond the powers of common men. But to appraise now the result of all this disaster upon our future, upon the business and social and governmental units of the next

## Some Doubts and Queries

generation, is a task to challenge and baffle the highest powers of human insight. The defects of our political structure are manifest. The pusillanimity and demagogic of politicians elected under the so-called primary laws, the inefficiency and irresponsibility of a constitutional system which may, and often does, leave legislative leadership in one party and executive in another, the evils of elections artificially fixed—all these are characteristically American and must give concern to thoughtful men, whether American or alien.

In our economic organization, we are becoming increasingly conscious of the inconsistencies between our traditionally individualistic and competitive system and any orderly or stable productive or distributive organization. In our public utilities we not merely recognize but insist upon governmentally regulated monopolies, established for the most part upon certificates of convenience and necessity issued after a judicial determination. It is significant surely that the obligations of these monopolistic and publicly regulated utilities are among the few relatively safe investments in this country today. And yet if this monopolistic principle were extended throughout industry, thousands of industries would be denied existence and millions of individuals would be permanently unemployed. In our present economy the corner grocer is generally unfitted for his job as a retail distributor of food, and oftener than not he gets only financial failure for his pains. But at least he has a job. He creates employment. And if he is to be abolished, industrially speaking, along with millions of quite superfluous lawyers, bankers, truck drivers, shoemakers and middlemen of all kinds, how is he to make a living?

Whatever the basic causes of the depression, its most disturbing result is unemployment. It is unemployment that impairs purchasing power, generates further unemployment, necessitates relief. Here the circle is at its most vicious. In the ratio of the employed to the unemployed

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we may find a sort of coefficient of national well being. Nine men with jobs can certainly bear the burden of one man without. Eight men with jobs could doubtless bear the burden of two without. Lower the ratio to 6 to 4 and the task is difficult. Obviously at some lower point it becomes impossible. When it is completely impossible then a new society must be constructed. The capitalist whose income has shrunk from \$25,000 a year to \$15,000 a year may not be himself a very pitiable object. But if he is to be regarded as a means of support for the *mutilés de la grande guerre* of over-competitive industry, then the decrease in his income becomes a public misfortune. Actually this is one of the most disturbing features of the depression. With constantly mounting needs for relief, we have a constantly diminishing capacity in the relievers, until doubt arises as to the capacity of a community to meet its minimum burdens of disease and want. Hospitals are worried—the winter of 1932-1933 will not be any fun. A good part of our country gets four months of severe cold, so that there must be fuel as well as food.

While practical men face the question of relief, the political philosopher is left to wonder about freedom in the United States of America. How curious is the contrast between our social restraints and our economic liberties. A man may not lawfully sell his neighbor a glass of beer at any price, but he may sell him other merchandise on almost any terms or at any price. In many States he may not play golf on Sunday, but on the other six days of the week he may play as wildly as he likes with such delicate mechanisms as instalment credit, with social consequences considerably more demoralizing than are likely to be caused by a golf ball on any day of the week. On the economic side, his principal handicap is that he may not monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce in a State, and may not contract or conspire in restraint of trade or

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commerce among the States, or within most of the States, though just some such restraint be indispensable to save jobs or natural resources. Undoubtedly public opinion is trending away from these old anti-trust statutes. The United States Supreme Court has lately upheld the constitutionality of the Oklahoma proration statute which contains provisions intended to conserve the oil supply and prevent unlimited production. This decision may promote the enactment of similar legislation regarding other commodities. The story of the law's encroachments upon economics is long and often sad. It is not yet ended.

Of course we ought to have more planning and less chaos in our society. But how can we achieve the goal? Who can plan? Is the abolition of poverty Moscow in 1932 any better than the abolition of poverty Wall Street in 1929? These are some of the inquiries vexing the breasts of humbled men and women in the land of the possibly too free and the home of those who may be brave only from the force of circumstances. The courage and fortitude of the men who faced death in the war and destitution today are beyond all praise. But the necessity for the exercise of such courage and fortitude reproaches our society. And, as Sir Arthur Salter says, we cannot be satisfied with an answer available only to a succeeding generation. We seek a solution today or else resign ourselves to seeing the righteous forsaken and their seed begging bread.

United States of America.

July 29, 1932.

## MANCHUKUO

### I. THE SPREAD OF THE OCCUPATION

TO the surprise of the most astute observers of Far Eastern affairs, while yet heavily engaged in operations outside Shanghai, the Japanese still further extended their commitments in Manchuria.

Early in February, a Japanese brigade moved north along the Chinese Eastern Railway. A pitched battle was fought outside Harbin. The Chinese forces were driven north-east and north-west, though not without inflicting heavy casualties upon the victors. The Japanese occupied Harbin, and proceeded to consolidate their political and strategic position there.

A few weeks later, after feverish haste in preparation, the so-called "independent" State of Manchukuo (Manchuria) was brought publicly to birth at Chanchun. Meanwhile a savage guerilla warfare developed along the Chinese Eastern Railway. Japanese troops deployed from Harbin east and west along the line. Day after day there came news of desperate skirmishes, derailment of trains—passages of arms which were invariably indecisive.

In April Japan changed the military command in Northern Manchuria, and concentrated a full division upon Harbin, while a large aerodrome, housing numerous bombers, was constructed nearby.

To-day, nearly a year after the Japanese coup d'état at Mukden, Manchuria is probably in a worse state of disorder than at any time since the Russo-Japanese war. The Japanese, on their own admission, are now employing six divisions in Manchuria, and in regard to such matters

## The Spread of the Occupation

Japanese officialdom is not prone to exaggeration. In a book published at the end of last year entitled *America's Siberian Adventure*,\* General Graves, the commander of the American contingent of that ill-starred expeditionary force, throws much light upon Japanese methods. Under the quotas agreed upon by the Allies participating in the Siberian expedition Japan was allotted 12,000 troops. Although ostensibly adhering to the agreement, she actually threw into Siberia a force which in 1921 totalled 72,000. It is estimated by reliable observers that she now has 90,000 troops in Manchuria. Her forces are in military occupation of the whole of the Chinese Eastern Railway from Manchuli in the west to Hailun and Mulin in the east. Yet, even now, scarcely a day passes without news of an attack upon Japanese troops at some point or other along the railway. Though these attacks are invariably repulsed, they recur, and each time the Japanese report casualties.

The general condition of the country seems steadily to deteriorate. The farmers were not able to plant their crops during the spring, and a serious food shortage is predicted in many parts of the country. Trade and industry stagnate.

When the Japanese army moved into North Manchuria in February many of those who believe that a second Russo-Japanese war is inevitable feared an immediate outbreak. The military occupation of the Chinese Eastern Railway, friction with the Soviet members of the Railway Board, the arrest of Soviet citizens in Harbin, the expressed views of Japanese staff officers, were provocation enough, but there are other causes of ill-will. The railway now under construction from the Korean port of Seishin to Kirin will deprive Vladivostock of much of its trade. Japanese politico-commercial enterprises have already taken over the property of Russian transport organisations on the Sungari River. Hospitals, railway sheds and

\* Published by Jonathan Cape.

## Manchukuo

buildings have been wrested from the Chinese Eastern Railway. The existence of Russian interests has nowhere been allowed to stand in the way of Japanese pushfulness.

Yet, in spite of the obvious dangers, nothing untoward has happened. It is true that Russia has taken considerable precautions. Vladivostock has been fortified and troops have been concentrated along the frontier. But Russian troops on the frontier withdraw from their positions wherever a clash seems imminent.

The forces of friction, however, remain. Among them not the least potent is the alleged supply through Russia of arms and equipment to the Chinese guerilla bodies fighting the Japanese troops.

Whether Russia is prepared to see Japan—her policy strongly militarist—create in North Manchuria the strategic position that she has so long desired, eliminate by gradual stages the vast and dynamic influence of Russia in North Manchuria, thrust outward into Mongolia, and undermine the economic value of the Chinese Eastern Railway, the port of Vladivostock and the dominant economic position which Russia holds in North Manchuria, is a question the answer to which is not yet known.

The Russo-Japanese situation in North Manchuria\* must be kept prominently in mind when considering the issues in Manchuria, as they concern the relations between China and Japan, and in their broader aspect affect world peace and disarmament. The inter-relation of the political clauses of the Washington Treaty and the programmes of disarmament has already been emphasised in these pages.†

\* For an interesting analysis of the Russian position in North Manchuria, and the fundamental distinction between the Chinese attitude towards Russia and towards Japan, see *Manchuria, Cradle of Conflict*, by Mr. Owen Lattimore (The Macmillan Company, New York, 1932).

† See THE ROUND TABLE, No. 87, June 1932, p. 565.

## The Birth of Manchukuo

### II. THE BIRTH OF MANCHUKUO

JAPAN has created a "new State." It is styled "independent," and declared to be based upon the will of the "thirty million inhabitants of Manchuria." By a trick the ex-Emperor of China, Henry Puyi, was conveyed from Tientsin to Changchun and invested with regalia as "Chief Executive" of Manchukuo. The government organisation is the conception of the Japanese military leaders in Manchuria. Comparatively junior officers are taking a hand in the framing of political plans and in their execution to an extent which can scarcely be believed by Westerners who have not been on the spot to see for themselves. Official announcements made in Tokyo serve mainly to obscure the facts, but newspaper articles written by men who are actually concerned with the direction of affairs in Manchuria sometimes lift the veil. Reference need only be made to *The Times* of May 17. Its Tokyo correspondent quotes an article written by a Major Hanaya (closely in touch with the General Staff and with the march of events in Manchuria) and published in a reputable economic journal. Major Hanaya describes in detail the structure of the "Manchukuo" government and its mainspring of action and policy—the "steel frame"—a "Board of Central Affairs," staffed by Japanese officials, which has complete control of the budget and executive, and upon which the different ministries are utterly dependent. A Japanese "inner government," carried on by officials hidden in the recesses of the executive machinery, provides an interesting constitutional experiment and a convenient alternative to annexation.

Owing to her "over-eager"\*\* participation in the international treaties and agreements signed since the Great

\* A quotation from a well-known Japanese apologist.

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War, Japan is placed in a very difficult position. To get what she wants she must call it by some other name.

It might be possible to sympathise with an honest pursuit by Japan of her aims in Manchuria. She lives in fear of Russia, just as France lives in fear of Germany. With the development of aerial warfare, Vladivostock seems a dreadful menace to those who sleep in Tokyo. The strategic "necessities" of the army have been reinforced by the pressure of a tremendous economic propaganda—a propaganda which has been exaggerated\* but nevertheless is supported by the fact that Japan has extremely valuable economic assets in Manchuria. Her economic and political control of Manchuria has a deep bearing upon the prosperity and happiness of her people.

She has reached a stage of economic development and organisation upon Western lines which has produced, as the inevitable concomitant of over-population, an almost uncontrollable desire for expansion. The pressure of population has indeed produced a desperate feeling of constriction; Japan is impelled by forces which seem to her almost irresistible. There is no doubt that the vast majority of her people are genuinely convinced of the truth of the "life and death" theory with regard to Japanese interests in Manchuria.

The main issue is not—as is so often maintained—a question of the validity of treaties. Carefully considered, Japan's purely "legal" grounds for taking action last September were not at all convincing, apart altogether from the fact that the course she took was inconsistent with the world obligations to which she stood committed. Treaties and agreements are intended to define and to regulate certain human relations. In Manchuria relations were neither precisely defined nor adequately regulated by administrative machinery. In the words of a well-known American publicist, "in Manchuria Chinese rights, Japanese interests and Russian aspirations clash head-on in

\* See *THE ROUND TABLE*, No. 86, March 1932, p. 271.

## The Birth of Manchukuo

a fashion that in Europe and America has always meant war.”\*

In so far as they are attributable to policy, the events of last September must be attributed to a Chinese policy of hostility to Japan, unhampered by any squeamish regard for the spirit of treaties, and a Japanese determination to uphold her economic rights despite the letter of her engagements.

The creation of Manchukuo marks an attempt to create the state of affairs that Japan desires, while at the same time enabling her to retain her international standing with the Powers whose good graces she has in the past done so much to cultivate.

But, in considering the whole question of the motives and good faith of Japan, it should be remembered that she is in a state of intense political convulsion. All kinds of forces are at work and even experienced observers find it impossible to assess their relative strength. There is a movement, with which the army is largely identified, against the present capitalistic régime and the whole structure of party politics—the venal alliance between party politicians and the great family-owned commercial houses. There is a very general feeling of exasperation at the way in which since 1922 her foreign policy has been conducted in accordance with the new ideas of the West—ideas which Japan, having perhaps reached a stage of development on Western lines comparable to that of England in 1900, has adopted sincerely enough through the medium of the men who until recently guided her foreign policy, but which have not penetrated the national understanding to any depth. The army (directly responsible to the Emperor, and an extraordinarily potent force under the hydra-headed Japanese constitution) does not view international concepts through the eyes of the new West. It would not be reasonable to expect it. But it must not be forgotten

\* Mr. Chester H. Rowell in the April number of *Asia*.

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that the trend of affairs in Manchuria is to an astounding degree in the hands, not only of the army, but of a swarm of subordinate officers, officials and secret service agents, whose power and influence is much greater than is generally understood.

One result of this situation is a feeling of despair among many educated Japanese about the outcome. They admit that Japan has no unified or controlled policy with regard to Manchuria. She knows what she wants, and the Japanese people stand with considerable solidarity behind the army as the active exponent of a policy of national expansion and prestige. But the army and immense sections of opinion in Japan are obsessed with the desire of exploiting Manchuria "for the people of Japan," and of preventing the introduction into Manchuria of the methods of the corrupt political régime at home.

This factor lies behind an impossible scheme of the General Staff for the mass colonisation of Manchuria with Koreans and Japanese. It is behind the action of those in control of the Manchukuo administration, the Japanese "advisers," discovered and appointed by the army in Manchuria, and drawn from various sources—the army itself, the consular service, the South Manchuria Railway and commercial houses.

To this extent, and to this extent alone, there exists a cleavage between the policy of Manchukuo and the policy of Tokyo. Although Manchukuo is Japanese, it is not part of Japan. The Japanese "advisers," working in close co-operation with General Honjo, fail at many points to see eye to eye with the Tokyo Foreign Office. It is true that there is quite a strong party within that Foreign Office in active sympathy with the aspirations of the Japanese in Manchukuo. But the attitude of many high-placed Japanese officials is well illustrated by a newspaper article recently published in America,\* which quotes a prominent

\* The United Press Tokyo correspondent recording an interview on July 6, 1932.

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Foreign Office official in Tokyo as basing the case against the "immediate diplomatic recognition" of Manchukuo mainly upon the grounds that Tokyo is "by no means satisfied with the present Manchukuo government which was hurriedly formed and is the work of the Japanese army and of Japanese civilians who have long been active in Manchurian politics." The quotation concludes as follows:—

The horde of Japanese advisers in Manchukuo is not the selection of the government in Tokyo, but of the army. These advisers, acting under the direction, and with the sympathy of the military, are working on a programme which the experienced statesmen of Japan consider highly impracticable.

The position in Manchuria from the Japanese point of view may be described as "stale-mate." Fighting continues and constructive development is the sport of conflicting ideals and half-thought-out ideas.

Recent events in connection with the Chinese Maritime Customs illustrate the methods employed by those Japanese who are directing the development of affairs in Manchuria. The Japanese "advisers" decided to take over the Chinese Maritime Customs there. Fired with excitement and patriotism, branch managers of the Yokohama Specie Bank allowed themselves to be decoyed away from well-recognised banking practice and withheld funds from the Customs Commissioners who had actually deposited them. At Dairen, in spite of Japan's definite obligation under the 1907 treaty to maintain the integrity of the Chinese Maritime Customs administration, Japanese officials encouraged the disruptive process on territory leased from China. Tokyo is forced to maintain the difficult fiction of Manchukuo "independence." As usual, it has followed haltingly behind events already consummated. The organisation of the Chinese Maritime Customs in Manchuria is now completely broken. At Harbin and elsewhere the British Commissioners of Customs have been intimidated

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and forced from their offices by Manchukuo police, led and prompted by Japanese "advisers."

In Manchuria Japan had a good opportunity of establishing a new Chinese administration which would have been more amenable to her own desires. She might have capitalised the very real dissatisfaction with the Chang Hsueh-liang régime. But, thanks to her own want of discretion and the way in which the Japanese army has completely dominated the "puppet" State set up a few months ago, Manchukuo has become an empty farce and an object of hatred and contempt to the majority of educated Chinese who have been obliged to remain in Manchuria.

### III. THE FUTURE

IT would be rash indeed at this stage of complexity to attempt to prophesy the outcome of such a tragic state of affairs. It may be said, however, that the quarrel between China and Japan is too frequently discussed in legal terms, in terms of treaties and protocols. It is not a legal matter. It is political and economic. In Manchuria there has developed a situation which, though clothed, and apparently legalised, by certain treaty forms, is without parallel. Japan's economic interests are also essentially political; the South Manchuria Railway is an *imperium in imperio* the exact like of which cannot be seen anywhere else in the world.

There are certain fundamental issues which must be recognised. It has been seen that at the moment the control and direction of Japanese policy in Manchuria is not in the hands of men who recognise the importance and significance of the international agreements upon which the progressive security of the world must rest. These men and the Japanese militarism which stands behind them, constitute a force which has to be reckoned with. Japan is perhaps the only country in the world to-day which is "war-minded."

## The Future

Apart from the significance of this fact for the disarmament programmes of the Powers chiefly concerned, it must be realised that Japan is most unlikely to accept any solution of the Manchurian situation which is calculated to check the pressure of her economic and political penetration. The danger is that she may accept some kind of legal definition of the situation and at the same time cynically pursue the realities of her own policy.

On the other hand, China's appeal to the League of Nations was not inspired by any such ideals as those upon which the Covenant is based. The League was dragged in as a useful instrument to assist one of the parties to the quarrel. Neither China nor Japan has been moved by the concepts which inspire the maintenance and development of the League's machinery.

Recently there have been some interesting indications that China and Japan may quite soon achieve a superficial solution of their difficulties by direct negotiation. Enthusiasm for the Manchurian battleground is noticeably declining in China. The boycott is still severe in South China and among overseas Chinese along the Pacific coastline; but at Shanghai it is weakening. In North China no boycott exists. Despite the disorganisation of its government system, there is an extraordinary racial solidarity in China, and feeling is still concentrated upon the Manchurian issue. And although Manchuria is intensely regional in character, there is an essential racial unity between it and China. Support of armed opposition to Japan in Manchuria has always been unofficial rather than governmental. But racial feeling will not indefinitely take the form of practical demonstration. The Chinese show signs of becoming weary of it, though money is still being collected and remitted by Shanghai bankers to the bandit-general Ma Chan-shan.

On the other hand, the intensity and duration of the boycott and the success of the guerilla tactics in Manchuria are beginning to tell upon Japan. She would be ready to

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compromise to some extent if Chinese support could be withdrawn from the harrying bands of Chinese "volunteers." To this extent legal definition serves its purpose. If a compromise can be effected in legal terms the realities of the conflict will quickly lose their hold upon the Chinese imagination. Nanking, moreover, has good reasons for desiring a speedy settlement, and the seizure of the Manchurian Customs may prove a powerful lever in this direction.

There is some ground for believing that the compromise may take the form of the abandonment by Japan of the Manchukuo experiment—an experiment having all the appearance of dismal failure—and the acknowledgment of Chinese sovereignty, in return, not only for endorsement of the 1915 treaties, but also for certain administrative safeguards. The vital conditions of the struggle, economic pressure from Japan and China's effort to hold off this pressure, will continue.

Fraught with difficulty as the situation is, there are not lacking certain elements of hope. It is in every sense an oriental situation. Many aspects of it are beyond our Western comprehension. "Self-determination" as applied to Manchuria is but an empty catch-word. It is a great country that has suffered so much from misgovernment that it should not pass the wit of man to assure for it a better future. Its future form of government and the relations of that government to China and to Japan must be determined by somebody. It may not pass the wit of Oriental man to devise formulae and to create machinery, which will satisfy pretensions—not logically perhaps but adequately—and which will work, if not smoothly, at least without dangerous friction.

China.

July 15, 1932.

## INDIA : A LESS TENSE QUARTER

IN our last article we described how Government had retained the initiative in the struggle with Congress and what measure of success had attended their policy. We concluded on a note of expectation, as to developments on the expiry of the ordinances, and as to the possibility of more speedy constitutional advance. The close connection between the political and constitutional situation was emphasised, and we explained that improvement in the former depended in large measure on the settlement of the latter. Since the conclusion of the legislative session at the beginning of April, politics have, in fact, been somewhat quieter and conditions in the provinces show considerable improvement. Here and there serious outbursts of communal disorder have occurred—a very disquieting symptom, as will be shown on a later page—and terrorist outrages have continued. As regards the new constitution, the period has been one of conscientious spade-work with some unexpected developments. We propose, therefore, to deal with the four main features of these months, namely : the increasing discomfiture of Congress, the terrorist movement, the communal situation, and constitutional progress.

### I. THE DISCOMFITURE OF CONGRESS

THE general experience of the past has been that feeling works up to fever heat in the late spring and early summer, but rarely remains at a high temperature throughout the whole year. This spring, however, has been an exception to the general rule, and the excitement of January

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and February, engendered by the civil disobedience movement, showed a progressive falling off in April, May and June. Men, money and enthusiasm have been lacking. The Congress leaders had decided, in defiance of authority, to hold the forty-seventh session of the All-India Congress at Delhi last April, as a demonstration of their strength and as a means of arousing popular enthusiasm already on the wane. Their efforts were frustrated by the decisive action of the Government and the precautions taken by the local administration. As a session of Congress it was a fiasco, and only served to expose the hollowness of their pretensions. The persons arrested for defiance of lawful orders were for the most part outside mercenaries, and, though excitement ran high for a couple of days or so and imposed a severe strain on the police, it as quickly subsided, and the return to normal conditions was unusually rapid, in spite of a clever attempt to embroil the Sikhs in the Congress agitation. The imprisonment of the acting president, Mrs. Naidu, withdrew a temporary stimulus.

On the failure of this mass demonstration at Delhi, the new *de facto* president, Pandit Madan Mohan Malaviya, determined to concentrate on provincial sessions of Congress and district political conferences, and plans were laid accordingly. This was a shrewd move, and, had it been permitted, might have led to some recrudescence of local enthusiasm. But meetings and processions were generally prohibited as being conducive to breaches of the peace, and, though various attempts were made to defy the orders, remarkably little success was achieved. At Guntur, in Madras, 250 delegates, including the president, were arrested in connection with the Andhra Provincial Conference. In Bengal attempts were made at Howrah and Noakhali, but at the former 19 persons were arrested and the assembly declared unlawful; at the latter, after the promulgation of a prohibitory order under section 144 Cr.P.C., six persons were arrested. At Karachi the proceedings of the Sind Provincial Conference lasted barely 15 minutes and 50

## The Discomfiture of Congress

persons were arrested. At Gujerat there were more arrests, but equal want of success. At Agra and Cawnpore similarly futile attempts were made. There is no need to multiply instances. From every part of India these abortive efforts proved the increasing weakness of the Congress in keeping alive public excitement and the rapidly growing extent to which Government had not only kept the initiative but had gained the upper hand.

Again thwarted, the leaders searched for new devices, and decided to concentrate on the purchase of *Swadeshi* (Indian produced) goods—as a variant of the boycott of foreign goods, and to hold a great *Swadeshi* day on which, perhaps because the growing unpopularity of hartals was realised, shops were to remain open till 5 p.m. To the slogan “Buy Indian” there is, of course, no objection; the Government take no exception to it unless it is a cloak for unlawful boycott and picketing; many persons wholly out of sympathy with Congress support the underlying principle. As a rallying cry, therefore, it has been of little avail, and, as almost every day in the year has now become an anniversary of some sort, the celebration of *Swadeshi* day passed off harmlessly enough and attracted little public attention. “Gandhi day” and “Prisoners day,” since celebrated, fell equally flat. Finally, in pursuance of the Congress policy of making capital out of the alleged harshness of the Administration, the present leaders have taken up the cause of prisoners convicted of offences in connection with the civil disobedience movement, and particularly of the women prisoners. In this respect some popular sympathy may be evoked, and a responsive chord may be struck in the legislature, where verbal overtures are not infrequently made to Congress. But obviously procedure of this kind is as powerless seriously to embarrass the Government of India or local governments as it is incapable of infusing vitality into a losing cause. Congress methods have become thoroughly unpopular, except with a small section of the city Hindus, and increasing difficulty is found in obtaining

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“ volunteers,” in spite of the offer of higher wages, and the fact that the schools and universities are in vacation, and that agricultural labour is at a loose end during the hot months of May and June. The people are getting tired of interference with their private lives. The destruction of letters in pillar boxes by means of sulphuric acid—the main characteristic of rather an abortive Postal week, the cutting of telegraph wires, the trick of pulling the communication cord of running trains and distributing leaflets on its stopping, forced closing of shops, tyrannical picketing, defiling the Lawrence statue at Lahore, these and similar antics have done nothing to advance—and something to retard—their cause.

The contention is often put forward in nationalist circles that below the surface the whole Hindu population is seething with resentment at rule by ordinance and that this feeling is the real measure of the strength of Congress. It would be more correct to say that Government prestige stands higher than it has done for some time in a country where nothing succeeds like success. Sir A. P. Patro declared at a non-Brahmin conference in Madras that there was within the ranks of the Congress an intolerant oligarchy dominated by capitalists and adventurers, and showed how picketing had given the mill-owners an opportunity of raising their prices. Bitter sentiments have been expressed against Congress by the Depressed Classes Conference at Kamptee and the All-India Hindu Youth Conference at Karachi. Their declining strength and growing unpopularity are, however, best illustrated by concrete facts in regard to their main lines of policy—the maintenance of excitement by defiance of the law and the martyrdom of imprisonment, the no-rent campaign with the direct object of securing rural support, and the financial embarrassment of Government by means of boycott. The figures in regard to imprisonment are illuminating. Pandit Malaviya has declared that 80,000 prisoners are in jail, and the credulous Mr. Fenner Brockway has repeated this figure. Actually,

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the total number of persons imprisoned, including those imprisoned for a short time and released on tendering an apology, has been little more than half—and the fall in the number of monthly convictions is eloquent to those who can read its meaning. The convictions in January were 14,809, in February 17,800, in March 6,900, in April 5,254, in May 3,818, and in June 3,534. The no-rent campaign may be said to have definitely failed. The last instalment of rent due was collected very nearly in full in the parts of Bombay and the United Provinces hitherto most disaffected. Finally, as regards economic boycott, in which direction, as was explained last quarter, Congress had achieved a greater measure of success than in other directions, the Bombay merchants have at last turned. The abnormal conditions obtaining in the Bombay cotton market, and the urgent necessity of restoring freedom of trade, are giving them much food for thought. The East India Cotton Association passed a resolution in June vigorously deprecating hartals, the president, Sir Purshottamdas Thakurdas, deplored the mixing of politics with business, and later the Indian president of the Bombay Stock Exchange expressed similar sentiments. The object of the Congress was not of course to injure Bombay, but to coerce Great Britain. In this they have failed, for India's financial position, though still very difficult, has improved as compared with last year: and though railway earnings are still disappointing, central revenues are looking up generally and there has been a welcome advance in the price of wheat. The latest rupee loan was well subscribed, though the rate of interest was  $5\frac{1}{2}$  per cent. as compared with  $6\frac{1}{2}$  per cent., which had to be offered last year, and 6 per cent. in 1930. India's external credit is unimpaired.

Such was the general position of Congress *vis-à-vis* Government at the end of June when the momentous question of the renewal of the ordinances had to be decided. As we have shown, the Congress position had greatly weakened, and the Government had fully demonstrated

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their power of dealing with its lawless activities. At the same time, this result had been achieved only by the exercise of vigilance and firmness, and there was every reason to suppose that withdrawal of the special powers conferred by the ordinances would immediately give Congress a fresh lease of life, an opportunity for further organisation, propaganda and mischief. The leaders showed, in spite of failure and disappointment, no inclination to give up the struggle, and still wield extensive influence in many parts of the country. A Special Powers Ordinance was accordingly promulgated, which made it possible to arm local governments with all the main powers conferred on them by the Emergency, the Unlawful Instigation, the Unlawful Association and the Boycott Ordinances of January last. In fact, though all the provisions of the new ordinance can be brought into force throughout British India, it has been found possible in many areas, where the influence of Congress has weakened, merely to keep those powers in reserve. The powers of dealing with the press have, however, been retained in full. This action on the part of Government, not anticipated by the Congress leaders, has taken the wind out of their sails. They had hoped to gain, on the expiry of the ordinances, an opportunity of rekindling excitement by a fresh spell of intensive indulgence in their characteristic methods. As usual, they under-estimated the strength of Government. The influence of Congress will probably still further decline, though the process of attrition has by no means reached the point of final defeat, and the possibility of revival through some unexpected stimulus can never in India be ignored.

## The Terrorist Movement

### II. THE TERRORIST MOVEMENT

WE now pass on to the terrorist movement. Terrorism is one of the main problems of the day, and unless some solution is found, neither provincial autonomy nor responsibility at the centre, nor the complete discomfiture or triumph of the Congress, will bring peace to Bengal. The cult of the revolver and bomb seems not only firmly established, but to be extending. The main features persist—the murder of officials, in reprisal, or to inspire fear, or to satisfy the curious sentiment that such murders are acts of propitiation ; the collection of funds for revolutionary purposes by means of robbery and dacoity ; and the manufacture of bombs, and the theft of revolvers, to supply the means of assassination. Three brutal and cowardly murders have been committed during the summer. Mr. Douglas, Collector of Midnapore, Captain Cameron at Chittagong, and an Indian Magistrate, Mr. Sen, at Dacca, have been shot—and Mr. Gibson, Commissioner of Ajmer, was attacked, but escaped without injury. Mr. Ellison, Assistant Superintendent of Police, is the latest victim at Comilla. Considerable sums of money have been obtained by train robberies and dacoities to replenish the revolutionary chest. In May, for example, a daring train robbery took place near Dacca, a hold-up in the most approved American style—the communication cord pulled, the train stopped, the guard shot, and the assailants making their get-away in a car kept in readiness for them, with some Rs.32,000. Space prevents the enumeration of many other incidents of a similar nature. As regards bombs and revolvers, a noticeable feature is the number of cases in which in the course of police searches in various parts of India bombs and revolvers are discovered, the number of instances in which injury to the person or destruction of property is caused

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by bombs, and the number of cases in which illicitly owned revolvers are used for the commission of crime, or in which the theft of arms is the objective. Recently, at Lahore, a bomb factory was discovered with a large quantity of bombs, materials for their manufacture, and counterfeit coins, dies and moulds. There is reason to believe that a gang of conspirators has been for a year or two manufacturing bombs for revolutionary purposes, and financing its operations from its own mint.

A curious type of sentimental pervert has sprung up in Bengal, to whom murder is a form of ethical self-realisation. These men, often youths, highly strung, neurotic, slaves of emotion, and careless of life, convinced that they are martyrs and heroes, tend to develop a monomaniacal complex. The ordinary law is quite ineffective. Suspects are, therefore, kept in detention, after judicial examination of their dossiers, but without trial, while those who have been convicted of terrorist crimes are undergoing sentences in jails in Bengal. But their presence in their own province has led to considerable undermining of general discipline in the prisons, and detention in special camps within the province facilitates communication. Power has accordingly been taken to detain *détenus* in jails outside Bengal—and in pursuance of this policy about 100 have been sent to a camp jail established for the purpose in Ajmer-Merwara, a small island, as it were, of British territory situated in Rajputana. The Secretary of State has announced that persons who have been convicted for offences connected with terrorist outrage will be removed to the Andamans. Finally, the provisions of the ordinances dealing with terrorism have been tightened up in certain particulars. It remains to be seen whether these measures of deterrence will check the movement, but the fact that Government is combating it with energy and firmness is bound to tell in time. Terrorism, however, differs in essence and degree from a temporary popular fever such as non-co-operation or civil disobedience,

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and many of its votaries are irreconcilable recidivists who, for the safety of society at large, merit perpetual segregation.

### III. THE COMMUNAL SITUATION

MOSLEMS for the most part have held severely aloof from Congress, and have played practically no part in the civil disobedience movement. On the contrary, they have expressed, along with the depressed classes, their abhorrence of civil disobedience and their relief at the protection given them against Congress by the ordinances. But, nevertheless, fully appreciating, as they do, the vital importance of the constitutional issues, and suspecting the Hindus of aiming at the supremacy of their own community, for the last three years they have been equally distrustful of the present constitutional policy of Government and of the Hindus. The more extreme elements have from time to time advocated direct action in order to compel acceptance of their demands. In our last article we referred to the Lahore Conference, at which only after strenuous negotiation was agreement reached not to pass resolutions in favour of boycotting the Round Table Conference, and its committees, but to await, if not too long delayed, the award of His Majesty's Government on the communal question. The extremist section in impatience have now broken away from the All-India Moslem League to establish an independent body, denouncing "ordinance rule," and demanding complete autonomy.

But upon Mahomedan feeling generally certain recent events have perhaps had a calming influence. The new constitution is now working in the North-West Frontier Province, the first meeting of its Legislative Council has been held, and for the first time in its history its budget has been discussed and voted by its own representatives. The Mahomedan Minister has expressed great satisfaction

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at the results, and a mass meeting of Khans voiced their appreciation of the new order. A welcome feature is the comparative quiescence of the Red Shirts, whose interference in the elections caused some revulsion of feeling against them. In Kashmir, again, the report of the Kashmir Constitutional Reforms Conference has recommended the redress of the main Moslem grievances, including the creation of a legislative assembly in which Moslems will have a clear majority over all other communities, and the Ahrar movement, which at one time threatened to be a source of embarrassment, has now subsided. The financial practicability of the creation of a separate province of Sind, on the recommendation of the Sind Enquiry Committee, has also had a heartening effect. Finally, a Mussulman, Captain Sikandar Hayat Khan, has been appointed as officiating Governor of the Punjab, owing to the regrettable illness of Sir Geoffrey de Montmorency.

Though, however, excitement is less visible, the Mahomedans are keyed up to maintain their solidarity, and relations between the two communities are becoming increasingly strained. In the first place, the announcement of His Majesty's Government has aroused strong sectarian feeling. The Mahomedans are anxiously looking to their own position. The Hindus, especially the Hindus of the Punjab, desperately afraid of a permanent Mahomedan majority in the Punjab Council, are doing all in their power to prevent it, and are now making a bold bid for the support of the Sikhs in opposing the Moslem claims. There is at the moment every indication that they have succeeded, for the Sikhs are protesting strongly against a Mahomedan majority in the Punjab with inadequate Sikh representation, maintaining that they would prefer no reforms at all to "Mahomedan Raj." The Hindu Sabha have sent their president, Dr. Moonje, to England, to try to influence the Prime Minister. He claims to represent the depressed classes also, on the basis of his

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pact with Mr. Rajah. As the time approaches nearer to the announcement, tension is naturally increasing and feelings below the surface are now very strained. Secondly, the events in the North-West Frontier Province, Kashmir and Sind, as they have served partially to allay the previous excitement of the Mahomedans, so they have disturbed the Hindus. They might mean a considerable strengthening of Mahomedan territorial influence in the north of India, and if, as is freely rumoured, the Mahomedans are to get a permanent representation of 51 seats in the Punjab Legislative Council, Hindu disquietude is not difficult to understand. Thirdly, the main Mahomedan festivals have fallen during the hot months of this summer. Even in normal years their celebration is an occasion for, at times, elaborate precautions to avoid breaches of the peace, and demonstrates the religious fervour and unity of Islam. But when feeling is already running high, the festival season is a very potent factor in intensifying communal partisanship, and the most trivial incidents may suddenly and without warning precipitate rioting and bloodshed on a large scale which causes communal excitement to spread like a forest fire, not only in the city or district where it breaks out, but from district to district and even from province to province.

On May 14 some Moslem youths were collecting subscriptions in Bombay for the approaching Muharram festival. Some Sindhi Hindus refused to make a contribution. Thereupon the Moslem youths, it is alleged, used abusive language, and were beaten by the servants of the Hindus. Straightway a Moslem crowd gathered at the house—and in India crowds collect with astonishing rapidity—and was met by a shower of soda-water bottles. Some Moslems were slightly injured, and the police quickly arriving upon the scene soon restored order in that locality. But this tiny flame soon became a great conflagration. Shops were closed, mobs collected in many parts of the city, mosques and temples were burnt, shops looted and

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houses set on fire. During the disturbances, which lasted about a week, and their subsequent renewal, nearly 3,000 casualties occurred—213 killed and 2,682 injured. Events such as these leave an aftermath of bitterness, and inflame feeling throughout the whole country. The Council of the All-India Moslem League, meeting at Delhi in June, found in the Bombay riots “a fresh instance of Hindu intolerance and high-handedness,” but appealed to leaders of both communities “to adopt such measures as would restore peace and good understanding between the communities.” They declared that delay in the announcement of the communal decision had already occasioned grave discontent and acute tension between the communities, and was impeding progress in the framing of the constitution. Moslem activity during the period has been mainly devoted to impressing upon England the justice and urgency of their claims and their refusal to accept anything short of the “fourteen points,”\* and the Agha Khan had to edit the somewhat intemperately worded document which had been sent to England for publication by a number of prominent Mahomedans from India. The Hindus, on their part, through Pandit Madan Mohan Malaviya, have implored the Moslems to abate their demands, and to have some thought for the nation. While certain leaders, such as Sir Chiman Lal Sitalvad and Sir Cowasji Jehangir, have deplored the inability of Indians to find a solution themselves, and urge acceptance of His Majesty’s Government’s award, if it is clearly based on justice and equity. There is no gainsaying the fact that amongst the rank and file a dangerous state of tension exists, which might lead to serious communal disturbances, or to a Hindu swing over to Congress, which would equally result in communal disorder. The Hindus who are not now supporters of Congress are in a jumpy and excitable state owing to the change of procedure announced by the Secretary of State with regard to the Round Table Con-

\* See the Report of the Simon Commission (Cmd. 3569) vol. II, p. 84.

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ference, and as they appear to see in this a fundamental change of policy, they may be caught on the rebound. Many Mahomedans are anxious for early provincial autonomy: the Hindus, on the other hand, for obvious reasons, deprecate advance in the provinces at a different pace from advance at the centre. The communal award is eagerly awaited.\* The present situation is dramatic: it is capable of entirely unforeseen developments, and may indeed be radically altered by the time that this article is published.

### IV. CONSTITUTIONAL DEVELOPMENT

THOUGH the communal problem at the moment completely overshadows Indian politics, it must not be supposed that no progress is being made in constitutional affairs. We described this period at the beginning of the article as one of conscientious spade-work. It is an open secret that the Government of India are toiling and moiling at the preparation of memoranda and despatches containing their views on the outstanding points of principle and detail. The Reports of the Federal Finance and Franchise Sub-Committees were published on May 7 and June 3 respectively, but the new procedure announced by the Secretary of State on June 27 has precipitated another crisis, which, with the prevailing speculation as to the communal award of His Majesty's Government, has tended to divert attention from these two very valuable reports, except in so far as the Franchise Report bears on the communal issue.

The Federal Finance Sub-Committee, on a forecast of federal and provincial budgets after the federal constitution has been introduced, anticipate that while, if economic conditions become normal, there will be a small surplus of about 4½ crores at the centre, the aggregate of provincial deficits will be approximately 3·82 crores,

\* See the summary of the award given at the end of the issue.

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the United Provinces and the Punjab alone showing a small surplus, and Bengal a deficit amounting to two crores. This forecast includes a contribution of five crores from railways and State contributions of 74 lakhs. The complete surrender of income-tax revenue to the provinces is not, in their view, warranted, and the centre must retain a considerable proportion, the rest being distributed to the provinces on rather an elaborate method, the result of which will be that Assam alone will show a deficit. The Committee have no hesitation in reporting that, if the federal government assumed responsibility for the whole of the pre-federation debt, its obligations would be covered by the assets taken over, and that the service of this debt would be fully covered by the sources of revenue remaining at its disposal. As regards powers of taxation, they propose certain sources of revenue in regard to which the power of legislation should rest with the federal government, certain other sources in which it should rest with the federal government, subject to State rights, and finally, sources in which it may rest with the units subject to a right of federal surcharge. The Committee believe that, provided normal economic conditions permit, the Peel Report provides a foundation on which an Indian federation can be established and begin its work.

The Report has not met with much informed criticism, and, as might be expected, the chief line of attack has been that the provinces do not receive full financial autonomy. The Working Committee of the All-India Moslem League consider that any system of contributions from autonomous provinces will render them "financially helpless, politically impotent, and administratively incapable of vigour, energy and effectiveness." From Bengal complaints are made that that province is badly treated and that the unfairness of the Meston settlement is perpetuated. The Report is perhaps too technical for the public to take more than a merely general interest in regard to the resultant position of the provinces and their contributions. It is, however,

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recognised in better informed circles that the Committee under-estimate the danger of the continuance of deficit provincial budgets, and seem unduly optimistic as to the early return of normal economic conditions. The absence of any material reserve, even on the assumption of a quick return to prosperity, causes considerable apprehension.

The Report of the Indian States Enquiry Committee was published on July 29, and thus completes the picture of federal finance. The Committee have carefully examined the debit and credit side of the financial relations of British India with the States, and recommend : (1) the total remission of tribute within a period of 10 years—59 lakhs— together with immediate relief to certain States of 11 lakhs ; (2) in respect of ceded territories, a cash credit to the States concerned, amounting to 37 lakhs ; (3) adjustment of immunities now enjoyed in regard to customs duty, salt and postal arrangements. The effect of all adjustments will be to cause a considerable loss of revenue to the federal government, certain States being in a position analogous to deficit provinces. The total loss may be as much as a crore of rupees, but may be considerably less. The Committee point out that “by their very entry into federation, the States would be making a contribution which is not to be weighed in golden scales.” This Report should help to remove one of the most serious obstacles to federation, but is bound to meet with serious criticism from British Indian politicians as, in combination with the findings of the Federal Finance Committee, disclosing a somewhat shaky financial basis for the future, and as erring on the side of generosity to the States. The task of this Committee was exceptionally difficult, as “the course of history during the last 150 years has brought into existence an intricate network of relationships between the two parties, the unravelling and readjustment of which must be accomplished before any advance can be made,” and there will be common consent that their recommendations are far-sighted and statesmanlike.

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The Report of the Franchise Committee, on publication, aroused the keenest interest : it makes a direct and intelligible appeal to the ordinary elector and can be readily translated into terms of current politics. The outstanding recommendation of the Report is the increase of the electorate from 7,000,000 to 36,000,000, or from 5·4 to 27·6 per cent. of the total adult population. Adult franchise is dismissed as impracticable, owing to the dearth of officials qualified to work such a system and the enormous numbers involved, with only a very small percentage of literates. Electoral qualifications should, it is proposed, be based on property and education. The latter has the advantage of providing for an automatic extension of the franchise in the future. Additional qualifications are suggested for women, which would give them a voting strength of about one-fifth of the whole. The general electoral qualifications, however, would mean that the estimated 35 millions of the depressed classes could not be enrolled in proportion to their population. Since it is essential that they should be able to express their opinions in the Councils, the Committee make suggestions for securing, by some form of differential franchise, a voting strength more proportionate to their number. The actual method should be left to local governments, owing to the wide difference of local conditions, but the voting strength should in any case not be less than 10 per cent. Special representation for industrial labour is recommended, but, in the absence of a communal settlement, they are unable to make final recommendations for the representation of special interests. A number of provincial franchise schemes, varying according to the special needs of each province, are proposed. Turning to the centre, the Committee endorse the proposal that British Indian members of the Senate should be elected to it by the single transferable vote, on the principle that the upper house represents the units of the federation, and the lower house the nation as a whole. The Federal Assembly should consist of 300 members, instead of 200

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recommended by the Federal Structure Sub-Committee, the area of the constituencies should be reduced by one-third, and the electorate increased from about 1½ million to 8½ million by changing the franchise.

As was to be expected in the circumstances already described in this article, the reactions to the Report are mainly on communal lines. The Hindus generally complain that the majority have not recommended immediate or prospective adult suffrage. The Working Committee of the All-India Moslem Conference, accepting the extension of the franchise, objects to the "segmentation of the Indian electorate" through special constituencies, which, if retained at all, should be for a transitional period, and Moslems should have a share in them. It demands existing weightage for Moslems except in Bengal and the Punjab, where it urges a Moslem majority. On the other hand, the large extension of the franchise proposed has shocked people like Sir Chiman Lal Sitalvad, who think it risky in the case of an illiterate population. The landowning classes are disappointed that no additional special representation has been proposed for them. The size of the constituencies, the proposed strength of the Federal Assembly, and the increase in the number of special constituencies, as being likely to complicate the problem of adjusting communal representation, have all come in for a certain amount of criticism. Responsible opinion, however, for the most part would agree with Sir Sivaswami Aiyar, a prominent liberal, that the report is "a most able document and thoroughly impartial," and that "the proposals of the Committee for the extension of the franchise have gone as far as is possible under existing circumstances." But it is likely that these recommendations will be subjected to a more critical examination, in the light of the communal award by His Majesty's Government when it is made known.

Matters of general constitutional interest, much discussed during the period of our review, have been the

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possibility—indeed the necessity—of speeding up the introduction of the reformed constitution, and the desirability or otherwise of establishing provincial autonomy as early as possible and prior to the completion of the federal scheme. The announcement made by the Secretary of State on June 27 is largely concerned with these questions. He explained the decisions of His Majesty's Government that there should be one Bill covering the whole field (*i.e.*, that provincial autonomy would not be first introduced), that the communal decision would be announced during the present summer, and that a more expeditious procedure for the settlement of outstanding problems had been designed. The main features of this new procedure were that no more plenary sessions of the Round Table Conference would be held, and that full consultation with Indian opinion would be secured by the continuous session of the Consultative Committee, by informal discussion with individual Indians especially qualified, by the appointment of a Joint Select Committee of Parliament, before the introduction of the Bill, with power to confer with Indian representatives, and, lastly, by formal consultation, if necessary, with Indian representatives in London before the Joint Committee is set up. The object of the British Government was clearly to combine greater speed with a more practical collaboration with Indian opinion than could be secured by discussion in full conference.

The decision met with a mixed reception. Most Mahomedan public men regard it as on the whole satisfactory, though Sir Abdur Rahim urges that the legislatures should be invited to co-operate more closely. The Hindus are dissatisfied, though at first there was no suggestion of withdrawal of co-operation, and the steadily growing agitation against it has been due to other causes than its merits. Mr. Chintamani, for example, did not regard it as "wholly satisfactory to Indian nationalists." Mr. Kelkar is gratified that Indian opinion is to have an

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opportunity of expressing its views before the Joint Parliamentary Committee. Sir Sivaswami Aiyar feels that the proposed procedure is better designed to secure expedition. Sir A. P. Patro does not read into the statement any sinister change of policy on the part of His Majesty's Government, but thinks the Consultative Committee should have been taken into confidence before it was made. Messrs. Sapru and Jayakar attribute the statement to Tory pressure, and see in it a clear abandonment of the original intention of the British Government, to reassemble the Round Table Conference for a final review of the work of the various committees, and, while not insisting that a full Round Table Conference should be summoned for a third time, urge "that a smaller body . . . should meet for a final review of the work of the committees, including the Consultative Committee, and for treating with British representatives." The liberals in the United Provinces apprehend a considerable interval between the introduction of provincial autonomy and responsibility at the centre. Mr. Sastri bitterly denounced the procedure: "If experts and people with specialised experience are only to give evidence before the Joint Parliamentary Committee, dominated as it must be by Conservatives, the new constitution will," he declared, "be an imposed constitution, and not one to which progressive parties in India have previously agreed, and which they may naturally be expected to accept." He considers that the decision "humiliates Indians in the extreme." The Congress press has skilfully encouraged opposition, by ridiculing the liberals or by quoting Mr. Winston Churchill's approval of the announcement as the clearest proof that the British Government have abandoned the policy set forth in the various statements of the Prime Minister. The further speech of the Secretary of State and the clear invitation for suggestions has fallen for the time being on deaf ears, and Congress are seizing the opportunity to urge the liberals and others to join them in their policy of non-

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co-operation. Messrs. Sapru and Jayakar have now resigned their membership of the Consultative Committee, and they with twelve other prominent Round Table Conference delegates have announced that the maintenance of the conference method is, as it was, an essential condition of their co-operation and support. The door is not, of course, finally closed, and it is possible that some acceptable and working compromise may be discovered before this article goes to press.

But the question to which some answer should be given is why a modification of procedure designed to expedite the establishment of the new constitution, and accepting the principle of a single Bill and Indian collaboration, should meet in the end with such definite opposition in Hindu circles. The answer seems to be that it is due to three causes : first, distrust of the Conservative majority in the present Parliament ; secondly, apprehension that the method now proposed will eliminate effective Indian criticism at the final stages, and, thirdly, suspicion that it foreshadows, in spite of emphatic disavowal, the prior introduction of provincial autonomy. A more fundamental reason would, however, seem to be the conviction of many Hindus that, in any case, it would be impossible to support the communal decision, and that, therefore, their withdrawal was only a matter of time and expediency : it would be wiser, having regard to the first elections under the new constitution, to make common cause with Congress on the issue of procedure, before the decision was announced. At the moment an *impasse* seems to have been reached, and it would be idle to prophesy whether or not a way out will be found.

India.

July 23, 1932.

## GREAT BRITAIN

### I. THE POSITION OF THE GOVERNMENT

EVENTS at home during the last quarter have been overshadowed by events abroad. No issue, however important in itself, but has necessarily been related in men's minds to one or other of the great conferences that have taken, or are taking, place. Geneva, Lausanne, and Ottawa have been the foci of converging interests, and next autumn they are to be succeeded by the World Economic Conference. Upon the success or failure of these conferences, which represent different aspects of the world crisis, the fortunes of the present Government, and indeed of many others, will depend. It is no part of the purpose of this article to discuss these conferences—that is done elsewhere. The Lausanne Conference alone has finished its work. As we go to press, the result of Ottawa is still in doubt, while the Disarmament Conference has only reached a sort of half-way-house in the form of certain conclusions, themselves merely provisional, and even at that not unanimous—a deadlock some people call it. However that may be, the labours of that Conference, which is referred to more fully on another page,\* are clearly likely to be prolonged, and a considerable time must elapse before the final result is reached. But the inter-dependence of disarmament

\* See p. 693.

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and the prospect of a general economic recovery has been put beyond all doubt by the obvious American determination, if the question of war debts is reconsidered, to make their attitude dependent upon the adoption of a substantial measure of real disarmament. At present it is a condition of American participation that the war debt question is not to appear on the agenda of the world conference.

It is clear, then, that we must wait before any prediction based on the result of the conferences can be made with regard to the present Government's life. It will certainly be judged by the event, just as its predecessors have been, and the acid test of its success or failure is likely once more to be the state of unemployment, which in a sense is a mirror of the state of trade. As likely as not, too, when the time comes, its own merits and demerits will enter comparatively little into the decision of the electors.

But if little can be said to-day about the Government's prospects, it is always possible to consider what progress has hitherto been made, and the present state of public opinion. The up-to-date results of the Disarmament Conference have undoubtedly disappointed a large number of people, who are not confined to any one party. As the *Daily Telegraph* put it, "a series of largely academic resolutions." Nothing tangible was decided; all that the Conference has done is to formulate principles "as a basis for further reductions." The Conference is to reassemble between September and January. In the meantime the armaments truce of last September is renewed until March. It is felt by many that the meagre results have made more difficult the outlook for the coming world conference. But those who feel like this are people who have been following events, and we are merely concerned in this section with the effect of events on the position of the Government. The man in the street has too vague an idea of what has been happening at Geneva to form a sufficiently definite opinion to

## The Position of the Government

apportion either praise or blame. There has been no full dress debate in Parliament on the subject to enlighten people, and the opinions that have been expressed are not unanimous, even among those who are regarded as the protagonists of disarmament. Lord Cecil, for instance, whose views on such a subject naturally command attention, while he admitted frankly that nothing definite had been achieved, thought the Geneva resolution "an immense opportunity." "We have got to insist," he said at the Liberal summer school at Oxford the other day, "that these general principles are turned into reality." Sir John Simon's answer to the criticisms of the interim resolutions at Geneva is that they would only be justified if the resolutions were final. The public generally will suspend judgment till a later stage.

Lausanne, too, was a first step, though a first step of immense importance, as has been generally recognised. As Sir Walter Layton has put it, the conclusion arrived at virtually marks "an end to reparations." "Saturday, July 9," he said in a broadcast to America, "will be noted by historians as one of the most important dates of modern history. On paper the agreement is provisional only; but if there is one thing certain it is that there can be no going back upon the German agreement." The agreement was discussed in the House of Commons on July 12, when Mr. MacDonald claimed that, though the problem of the war debt settlement had still to be faced, much had been definitely accomplished. "Lausanne has," he said, "brought us nearer to France, France nearer to Germany, and France and Germany nearer to us." As regards America, "there are still delicate relations," but "Lausanne has opened new ways, it may be very broad ways, and I ask for the work of my colleagues and myself the hearty approval of this House." That approval was unreservedly given, by the Opposition as well as by the Government's own supporters. The announcement of the agreement with France that followed, and a certain change in the

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attitude of Italy since the Conference caused a good deal of mystification, and even anxiety, but there is no doubt that the prestige of the Government, and especially of the Prime Minister, has been increased by Lausanne. The stock of the Government has, moreover, decidedly benefited by the successful conversion of the 5 per cent. war loan. This, however, brings us to the subject of domestic politics.

Against this exciting background Parliament has pursued an unhurrying and unhurried course. Thanks to its delegation of the details of fiscal legislation to the Tariff Advisory Committee, it has been relieved of what would have been its most harassing problem. At the beginning of June the Committee took a step towards justifying the hopes expressed when the Import Duties Act was under discussion last spring, by appointing a National Committee, from which regional committees have been formed to consider rationalisation projects for the iron and steel industry, and Sir George May warned the industry that, if it hoped to receive continued protection, effective replanning must take place.

The Parliamentary session closed early, on July 13, in order to enable the Government delegates to leave for Ottawa. The first task of the House during the quarter under review was to complete the last stages of the Finance Bill, but it is unnecessary to describe this measure, as it was fully dealt with in our last issue. Other legislation consisted of the Coal Mines Act, which is referred to in the next section, and the Irish Free State (Special Duties) Act, which gives the Government power to tax imports of any kind from the Irish Free State up to 100 per cent., in order to recoup itself for the loss of the land annuities withheld by Mr. de Valera—the history of the Irish crisis during the last three months is described in another article. There was a full dress debate on the question of national economy at the beginning of July—a special committee of Conservative members

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has made it its task to endeavour to keep the Government up to the mark in this respect.

On June 27 there was a statement of great importance by Sir Samuel Hoare. He announced a new programme for the purpose of the constitutional reforms which are to confer Dominion status upon India; the Round Table Conference will not be again convened. The Prime Minister's promised award on the Indian communal question is expected this month. It is interesting to note in connection with the subject of Indian policy that the vacancy in the Cabinet caused by the death of Sir Donald Maclean on June 15 has been filled by Lord Irwin.

There have been three or four by-elections, but they seem to throw little light on the position of the Government, merely indicating a natural tendency on the part of electors to return to their normal allegiance. At Wednesbury, no doubt, the figures of the Government's defeat were striking,\* but even Wednesbury, usually a safe Labour seat, was a case of reversion, though the "means test" admittedly influenced the result. If the times do not improve, the Government will no doubt fare badly in other industrial constituencies, but it needed no Wednesbury to make that clear.

As for the Liberals and Labour, both have continued to show signs of fissure. The Independent Labour party has left the Labour party, only to split itself in the process, while the Liberals, especially the young Liberals, do not seem to grow any more reconciled to the continued presence of Liberal Ministers in the Government. Ottawa indeed may prove to be a turning point. If one of its consequences should be a large additional instalment of protection for this country, it is thought likely that followers of the Liberal Ministers will freely break away and move independently to the left, if the Ministers themselves remain in office.

\* The figures were as follows: Labour 21,977, Government 18,198. At the last election they were: Government 25,000, Labour 20,842.

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But from the standpoint of the position of the Government the event of the quarter was, of course, the great conversion operation. Mr. Chamberlain was severely criticised, during the debates on the Finance Bill, for his failure to produce a far-reaching conversion scheme. The preparation of such a scheme necessarily calls for secrecy. The Chancellor turned the tables against his critics, with quite devastating effect, when on June 30 he finally announced his plans.

The conversion scheme is, in its boldness, simplicity, and scope, the biggest thing of its kind so far attempted. It provided at one blow for the conversion of £2,000,000,000 of 5 per cent. war loan to a basis, not merely of 4 per cent., but actually of  $3\frac{1}{2}$  per cent. The loan, in so far as it is not converted, is to be redeemed on December 1; but holders had the option of continuing at the reduced rate, and, if they accepted conversion terms before July 31, received a bonus at the rate of £1 for every £100 of war loan held. The bonus, moreover, was not subject to income tax as far as the "ordinary investor" was concerned. The saving to the Exchequer is of the order of magnitude of £23,000,000 a year.

This gigantic operation is admitted on all hands to be a triumph of prudence and statesmanship. Its success called for careful and effective co-operation between the Government, the Treasury, and the banks. A bank rate of 2 per cent.—the lowest for 35 years—laid the psychological foundations of its now assured success. Even so, considerable risks were involved, and the fact that they have been successfully surmounted must be credited to the National Government as a major triumph of its career. By the end of July, when the right to the bonus expired, the acceptances amounted to about £1,850 million, or nearly 90 per cent. of the total of £2,086,977,258. The holders of £48 million of the balance of £236,977,250 require cash on December 1. The holders of the remaining £188,977,258 may declare before the end of September if they wish to be

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repaid on December 1, otherwise they will be deemed to have accepted conversion, and many of them have already made known their intention of letting their stock be automatically converted.

If we were to close our record at this point, the prospect would seem full of hope, but there is unfortunately a reverse side to the shield. Conversion with its substantial reduction of the net debt charge and its stimulus to lower interest rates generally is one essential element in trade revival, but there are other elements which are less satisfactory. According to a statement issued on August 9 by the Ministry of Labour, there were 1,994,453 wholly unemployed persons on the register of employment exchanges on July 25, 721,552 temporarily stopped, and 94,777 normally in casual employment, a total of 2,811,782. This was 64,439 more than the number on the register on June 27 last and 98,432 more than a year ago.

Nor do the trade figures supply more cheerful reading. The following table shows the volume of imports and of (total) exports, respectively, for April, May and June, as compared with the corresponding figures for 1931:—

Imports		April	May	June
			£ millions	
1931	..	70·0	69·6	68·6
1932	..	53·5	55·7	57·5
Exports (including re-exports)				
1931	..	39·1	39·6	35·5
1932	..	39·4	34·6	33·9

It will be noted that recent restrictive measures have had an effect upon Great Britain's "visible adverse balance." But our exports, in spite of the various stimuli applied, still remain disappointingly irresilient.

Further information about the conditions of trade and industry will be found in the section that follows, but, depressing as the statistics continue to be, we have only to look back a year, and the memory of the dangers through

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which we have passed will restore our perspective. The lesson of the figures is, after all, not one of despair; they simply show that recovery must depend on international effort, and that our prospects, like those of the Government, depend upon the results of the great conferences whose proceedings or prospects are discussed in this issue.

### II. COAL, COTTON AND RAILWAYS

**B**RITISH industry as a whole has marked time during the last few months. Coal mining has felt the seasonal depression worse than usual—the number of unemployed miners reached 425,000 in June, and there was a further increase in July. Production in textiles, which received most benefit from the depreciation of sterling, has remained greater than a year ago, but employment is falling off, and the cotton trade has provided one of the worst breakdowns in industrial relations that has occurred in Great Britain since the war. Over most of industry there is a truce of mingled desperation and hope; the bottom of the depression may have been reached, but the signs of recovery are slight. In the industrial field the three most important developments of the quarter have been, perhaps, the coal settlement, the railways pooling plan, and the collapse of collective bargaining in Lancashire.

Parliament disposed of the annual coal crisis a month ahead of time. The Act of 1931 continuing the  $7\frac{1}{2}$ -hour day in the mines and maintaining wage rates was to have expired in July, but instead of letting things drift until the last hour, the Government rushed legislation through at the beginning of June which prolonged the  $7\frac{1}{2}$ -hour day indefinitely (or, rather, until the  $7\frac{1}{4}$ -hour day of the Geneva Convention is generally adopted in Europe). The Labour plea that wages must be safeguarded by statute from reduction was rejected, and Mr. Runciman accepted a gentlemen's agreement on the part of the coal owners that no reductions will take place for twelve months.

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The seven-hour day of 1919-1926 disappears from the statute book and becomes once again an ideal. The miners pressed hard that the owners should agree to some form of national co-ordination of district wage agreements when the present truce expires. The Government is sympathetic but not prepared to legislate. Next spring the miners will try again; whether the owners will then respond to proposals for national conciliation machinery is another matter.

The Act also prolonged for five years Part I of the Coal Mines Act of 1930, which governs the schemes for the production and sale of coal. The Government did not take the opportunity to revise the schemes to meet the serious defects that have been revealed by the first eighteen months' experience of their working, and amendments are to be made, on the owners' initiative, by departmental order. Proposals are under discussion which involve much closer control of supplies and prices in the home market, both in the districts and nationally; a subsidy for the export trade (this would require statutory powers); and more complete control over the opening of new or the re-opening of old collieries. They have been criticised on the ground that they do not go far enough—they do not touch some of the main vices of the quota system, with its encouragement of the inefficient pit—and that they involve a strengthening of the owners' monopolistic powers without any strengthening of those of the community. One effect of the change in the political atmosphere last autumn was a cooling off of the movement for colliery amalgamations. The Government, however, has made it clear that it will not scrap the Reorganisation Commission appointed by its predecessor, and the Commission has issued a warning to owners that they must bestir themselves. The merger of the whole Lancashire coalfield has fallen through owing to the difficulties of financial unification. On the distributive side some progress has been made, and a large scheme for co-operative

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selling in South Wales is on foot. Interest in the better utilisation of coal has also awokened during recent months.

The falling traffic receipts of the railways form a sharp incentive to cut costs, and have proved a spur to extensive internal reorganisation and closer working between the companies. The Minister of Transport has approved the pooling arrangements submitted by the L.N.E.R. and L.M.S.R. companies, and an arrangement between the G.W.R. and L.M.S.R. companies is foreshadowed. The pool already approved (after a public inquiry) affects 50 per cent. of the joint receipts of the two companies, and although a distinction is carefully drawn between pooling and amalgamation, many of the presumed economies of amalgamation should be secured. Certainly a big step will be taken towards the elimination of inter-railway competition. The displacement of labour will probably be serious, and the unions have staked out a claim for compensation for their members which, so far, has not been admitted. The question of rail and road competition will come to the front again with the publication, which is momentarily expected, of the report of the Salter Conference.

The cotton industry continues to weather the depression badly. The spurt given by currency depreciation is largely spent; Japanese competition, held off for a few short months by Japan's short-lived attachment to gold and by the Chinese boycott, has returned in full force. In all overseas markets exchange difficulties, tariffs and quotas are acutely felt; tariff protection in the home market affords only a slight counterpoise. The trade statistics are melancholy. Last year the exports of piece goods were less than in any year since 1864, towards the end of the cotton famine. Between 1924 and 1929 world production of cotton yarn increased by 24 per cent.; British production fell by 6 per cent. The world total last year was still 8 per cent. above that of 1924; the British figure was 31 per cent.

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below that of 1924. The world export trade in piece goods rose by 5 per cent. between 1924 and 1929; that of Great Britain fell by 16 per cent. Last year world exports were 37 per cent. below those of 1924; British exports fell off by 58 per cent. In 1913 Great Britain did 65 per cent. of the world trade in cotton goods; in 1924, 54½ per cent.; last year only 35½ per cent. This picture of rapid decline, fierce competition, and lost markets is the background of the internal demoralisation of the Lancashire industry.

The most considerable effort yet made to secure organised contraction and to adapt the size of the industry to its post-war volume of trade failed in June. The scheme of the Joint Committee of Cotton Trade Organisations for scrapping or immobilising surplus plant was decisively turned down. The Government had promised support if the idea of a statutory levy were supported by a substantial majority, but the final vote of the spinning section—to which it was proposed first to apply the principle—was overwhelmingly hostile. In the same month an attempt to combat weak selling by a production quota scheme in the fine spinning branch also broke down. There is now, probably, an end for some time to any large-scale co-operative effort at reform. The normal forces of attrition will slowly work themselves out. The industry's experience of rationalisation has not, of course, been happy. The individualistic spirit has been confirmed in its suspicions and conservatism by the history of the Lancashire Cotton Corporation, which four years ago was heralded as the beginning of a new era of large-scale amalgamations and mass production and mass selling in lost markets. The great combine has not justified the hopes set on it, and is now itself faced with the necessity of drastic reorganisation.

Just as the employers have been unable to agree on common policies of reconstruction, so the unions have dug themselves in behind traditional defences that changed

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circumstances have rendered untenable. Thirty-five years ago the authors of *Industrial Democracy* declared that "the machinery for collective bargaining developed by the cotton operatives, in our opinion, approaches the ideal." It seemed to them a perfect blend of democracy and the expert, admirably contrived to give security and stability, which by "the uniform application of an identical method of remuneration throughout the whole trade leaves the able capitalist or energetic workman free to obtain for himself the full advantage of his superiority." The words read ironically now that the self-regulating machine has stopped, and the common rule has been submerged by a return to individual bargaining more characteristic of the 'forties than of post-war industry.

The spinning section of the trade is working without governing hours and wage agreements, but labour conditions remain generally intact, although isolated inroads have been made, and the employers are about to make an extended attack. In the manufacturing section the sequence of events has a distressing fatality. After a long series of abortive negotiations and strikes,\* popular resentment among the weavers undid all attempts to introduce by consent the labour-saving system of increasing the number of looms worked by each weaver. Irritated by the delays, and by the way in which the rank and file of the operatives had thrown over their leaders, the employers moved for a general wage reduction. This, in April, the unions refused to entertain, using the not unreasonable argument that wage cuts alone would not bring prosperity, and that the workers alone should not be called on to make sacrifices so long as the employers made no effort at reform. Individual employers were, however, taking things into their own hands and applying lower wage rates, and their central body could not withstand the pressure behind it. On June 11 all wages and hours agreements were

\* See *THE ROUND TABLE*, No. 82, March 1931, p. 392.

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ended, and the field was left open to each individual employer to go his own way. The rot had not then gone far, and the unions by a little manœuvring might have compromised on a moderate reduction and saved their agreements. But they would neither strike nor negotiate without the assent of the rank and file, who in two ballots failed to give a decisive mandate either way. It was not until the end of July that the leaders dared to risk an appeal to the employers for negotiations. By that time whole districts had cut wages, the reductions varying capriciously from one mill to another, and ranging from 1s. to 2s. 9d. in the pound on earnings, which among the weavers are only exceptionally more than £2 a week. In the earlier weeks the operatives sporadically put up resistance, only to find their jobs filled by the unemployed who gathered at the mill gates. But resentment is intense, and the reopening of the county negotiations was accompanied by the outbreak of a surprisingly successful local strike at Burnley, where 22,000 operatives came out, and in which non-unionists as well as unionists were compelled by mass picketing to cease work. The negotiations broke down on August 9, in an exasperated quarrel on the question of the reinstatement of the operatives displaced by strikes; the unions, however, had still to meet the employers half-way on the amount of the wage reduction to be accepted. On August 11 the Weavers' Amalgamation declared for a county strike of the weaving mills. At the moment of writing the temper, no less than the way to compromise, is still to be discovered.

The result is, perhaps, what might be expected of an industry in which there is a large surplus of productive capacity, and a large surplus of labour, and in which long-continued depression has made both employers and workers desperate. Once a few firms began to cut wages the market was quickly upset, and firms which had no wish to interfere with wages were compelled in self-defence to do so, although they might realise that in the end there

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would probably be no lasting increase in the volume of business to go round.

The problem of the contracting industries, of which the cotton trade is so painful an example, is the main theme of the five industrial surveys of Lancashire, Merseyside, the north-east coast, south Wales, and south-west Scotland, which have been prepared by the universities of those areas, and published by the Board of Trade. These attempt an estimate of the surplus labour that is likely to remain when the general crisis has passed, and each report comes back to the central point that, if these areas are not seriously to decay, new sources of occupation must be found outside the old staple industries on which their populations have so long been dependent.

### POSTSCRIPT.

Since this article was written, the Conference on Road and Rail Transport have issued a completely unanimous report. The Conference consisted of the heads of the four big railways and four representatives of the commercial road services, with Sir Arthur Salter as chairman. The Conference took £60 million as the amount annually spent on the roads, and they suggest that this sum should be borne by the different classes of mechanically propelled vehicles in the following proportion, the amount to be paid in the form of licence duties and petrol tax: £23,500,000 is allocated to commercial vehicles (about £2,500,000 more than they pay at present), and £36,500,000 to private cars and other kinds of passenger conveyance. The principle upon which this apportionment rests was based mainly on petrol consumption and ton-mileage, but allowance was also made for other considerations, such as speed and unlimited franchise of the road as compared with the extra wear and tear caused by the heavier vehicles. No increase in the licence fee for the smaller lorries would be involved, but the amount paid by the heaviest type would be enormously increased—hitherto the maximum duty has been fixed at 5 tons, heavier vehicles not having been contemplated when the present system of licence duties was adopted. Want of space prevents our describing the other proposals.—  
EDITOR.

## CANADA

### I. PERSONALITIES AT THE IMPERIAL CONFERENCE

OTTAWA once before in its history played host to a gathering of the statesmen of the British Commonwealth, when the Colonial Conference met there in 1894, but never has it welcomed within its gates so many eminent personages as the Imperial Economic Conference of 1932 has brought together. Set in a broad wooded valley with the Laurentian hills as a background, it is a city of waters and trees, and the rich endowments of nature have been splendidly embellished by human skill operating through the taste of private individuals and the Federal District Commission, an organisation generously subsidised by the Federal Treasury, which has girt the city with broad drives and boulevards and laid out a series of beautiful parks. The Canadian capital therefore provides an admirable setting for the Conference, and with the working quarters in the Parliament Building situated on a massive bastion of rock overlooking the Ottawa River, and living quarters in the nearby Château Laurier, as fine a hotel as North America can boast, the delegates have been given living comforts and working conveniences such as could not be matched in London itself. By general agreement the physical preparations of the Canadian Government for the Conference were perfect in every detail, and it remains for the chosen delegates of the Commonwealth to justify the care, that had been expended on them, by the successful application of their intellectual powers to the problems before them.

The personnel of the Conference comprises a variegated array of political talents and business and administrative experience, but inevitably a fruitful outcome depends upon the statesmanship of the heads of the various delegations,

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and therefore some appraisement of their personalities and careers may be apposite.

Mr. Richard B. Bennett, the Canadian Premier, as both the originator and the Chairman of the Conference, has the first claim to consideration. Born of United Empire Loyalist stock in the province of New Brunswick in 1870, he is the architect of his own fortunes. *Res angusta domi* compelled him to begin earning his living as a teacher at an early age, but when he had saved some money he was able to attend the law school at Dalhousie University and qualify for the bar of New Brunswick. After practising for a few years at Chatham, N.B., an offer of a partnership in the leading law firm in the rising western city of Calgary opened opportunities for the development of his talents as an advocate, and before he was forty he was leader of the provincial bar of Alberta. What time he had to spare from the claims of a large law practice he gave to politics, and after serving first as a member of the legislature of the North-west Territories and then as leader of the Conservative Opposition in the Alberta legislature, he entered the Federal Parliament as member for Calgary at the reciprocity election of 1911. In his first Parliament his competence as a debater made him a man of mark, but he differed from his party leaders, first on their railway policy and then on their plan for a coalition Ministry, and so in 1917 he withdrew from public life and for the next eight years devoted his energies to his law business and large industrial properties in eastern Canada which had been bequeathed to him by a friend of his youth. However, in 1925 he re-entered the Federal Parliament and speedily asserted himself as one of the ablest parliamentarians at Ottawa. There was no serious opposition to his claims to the leadership of the Conservative party when Mr. Meighen resigned it in 1926, and his aggressive strategy in opposition paved the way for the Conservative victory of July 1930, which brought him the Premiership of Canada in his fifty-ninth year in the prime of his powers.

It has been Mr. Bennett's lot to hold office during one

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of the worst periods of economic stress that Canada has ever known, and even his sternest critics admit that no statesman could have spent his abilities more unsparingly in the service of his country than he has done in the last two years. Endowed with a fine physique, his tremendous energy, his driving power, his ingrained habits of industry and his capacity for quick decision constitute invaluable qualifications for the Premiership, and in Mr. Bennett's case they are reinforced by a wide experience of large business affairs and a special knowledge of banking and of the pulp and paper industry. He has persistently disavowed any pretensions to mastery of the science of economics and, scorning theoretical doctrines, has prided himself on his preference for a practical approach to all problems. He has also been a staunch devotee of protectionism on the ground that it is the only possible policy which can save Canada from economic vassalage to the United States rather than from any theoretical belief in its merits as a fiscal creed. Time was when he was rated the most fervid Imperialist in Canada, and his vehement advocacy in the campaign of 1930 of the principle of economic nationalism embodied in the "Canada First" policy need not be construed as proof that he has shed his early zeal for the preservation and consolidation of the great political society known as the British Commonwealth. He may find himself hampered from giving full play to his own convictions about Imperial economic policy by the nature of his political support, which is drawn chiefly from industrial elements, never prone to view with equanimity the curtailment of their precious tariff privileges; but he will never admit that he countenanced any policies inimical to the real interests of the Commonwealth. A skilful and experienced debater, he is too rapid in his delivery and too prone to improvisation on his feet to be an orator of the first rank, but he has a gift of forthright utterance which invariably commands public attention for his speeches. His political enemies attribute to him Mussolinian proclivities and an unwillingness to trust his

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colleagues and subordinate officials with responsibilities, and the opinion prevails in his own party that if he would acquire the art of devolving to others petty tasks which minor officials should easily handle, he would have more time for cool reflection and would reach maturer judgments than are now possible under so heavy a burden of varied cares. A man of few close personal friendships, he is a respected rather than a popular figure, but he has the faculty of commanding the loyal devotion of all whose duties involve close relationship with him. In regard to the personnel of his own delegation, Mr. Bennett has decided to follow the practice adopted by British Premiers at other conferences, namely to bring to the council board from time to time such of his Ministers as are concerned in their administrative duties with the problems under discussion.

The British delegation is a team of varied attributes and political antecedents, but there is no reason to suppose that the harmony that has been maintained in the Cabinet from which it is drawn will not be preserved at Ottawa. Its leader, Mr. Baldwin, represents the best type of progressive Conservative who, by his transparent honesty of purpose and generous outlook on social and economic questions, commands the confidence of the British public in a degree enjoyed by no contemporary politician. He is a believer in protection as essential for the economic salvation of his country, but he appraises the virtues of a tariff mainly in the light of its efficacy as an instrument for breaking down the protectionist barriers which have reduced international trade to a feeble trickle. He has an admirable temper for a negotiator at a conference such as this, and has an almost unique gift for converting opponents to his own way of thinking. Mr. J. H. Thomas, the Dominions Secretary, represents the Labour element in the National Government, and to no Conservative Minister does he yield in his ardour for Imperial economic co-operation. Mr. Runciman is the representative of Liberalism and in his hands will be most of the actual tariff bargaining which has to be undertaken ; his admirers assert

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that he has the best combination of business and political brains in Great Britain, and, if he has not completely abandoned his faith in free trade doctrines, he freely realises that their application to British fiscal policy has ceased to be practicable in a protection-ridden world. It is wholly fitting that the name of Chamberlain should have a place at this fateful Conference, and Mr. Neville Chamberlain, the Chancellor of the Exchequer, brings to it the Imperialist zeal which has become a family tradition, and an extensive knowledge of financial and fiscal problems. Lord Hailsham represents the more reactionary element of the Conservative party, as Sir Philip Cunliffe-Lister does the younger school, and both of them, while disposed to push a tariff policy to greater extremes than their colleagues, and less concerned about the maintenance of satisfactory trade relations with countries outside the Commonwealth, will not press their views to a point which might cause any breach in the ranks of the British delegation.

Mr. Stanley Melbourne Bruce, the leader of the Australian delegation, has touched life on many sides. Born in Melbourne of a rich mercantile family, of Scots blood, he got his university education at Cambridge where, if he did not gain high academic honours, he won distinction as an athlete by rowing in the 'Varsity boat in 1904. Called to the bar, he never practised seriously, but after acquiring a fine war record in the grim years following 1914 he was, thanks to his ample means, free to contemplate a political career. Starting in public life as a protégé of the celebrated Mr. W. M. Hughes, he soon displaced him in the affections of the Nationalist party of Australia and became Premier in 1923. As head of a coalition Government he guided the destinies of Australia through six troubled years until he fell out of favour with the voters and was badly defeated at a general election in 1930. For two years he was out of politics, travelling abroad, but now he is back in office, not as Premier, but as one of the dominating figures in a Ministry recruited from the new-born political party which bears as its title "United Australia." Ten years of public

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life have ripened Mr. Bruce's powers to a wonderful extent, and the inexperienced novice of 1922 who delivered halting speeches with a diffident mien has been transformed into a mature and skilful politician who as a speaker could hold his own in any company. He has been suspected in his native land of being more of an Englishman than an Australian, but the grounds for the charge are superficial and he has always combined a passionate devotion to the ideal of the Commonwealth of nations with a zealous guardianship of Australia's national rights. In his economic views he is a firm believer in a moderate brand of protection, but both his intellectual prepossessions and his business interests as a partner in an importing house make him deeply averse to the extravagant protectionism which the Labour party of Australia sponsored, and his influence has been steadily exerted for its modification. He can be relied upon to further all reasonable schemes of Imperial economic co-operation. Upon this subject he has definite, clear-cut, views which he is wont to advance with forceful emphasis. His colleague, Mr. H. S. Gullett, is an ex-journalist and an authority upon immigration, irrigation and correlated problems. Sharing as he does Mr. Bruce's views upon the tariff and other problems, he has already, as Minister of Customs, made a substantial contribution to the liberalisation of Australian fiscal policy.

Mr. Joseph Gordon Coates, the leader of the New Zealand delegation, shares with Mr. Bruce the honour of a splendid war record, but he was denied the advantages of a university education, and from his early youth pursued the avocation of a farmer in the north island of New Zealand. Elected first to the House of Representatives in 1911 at the age of thirty-three, his political career was interrupted by his war service, but soon after his return from Europe he was taken by the late Mr. W. F. Massey into his Cabinet and gained administrative experience in different offices. The death of Mr. Massey in 1925 opened the way for his elevation to the Premiership, and one of his first duties was to represent his country at the Imperial Conference of 1926. His

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Ministry had an easy life until the great depression descended upon New Zealand, when a gradual erosion of its popularity ended in a severe defeat at the polls in 1930. A spell as Leader of the Opposition followed, and the Premiership was once more in sight when he patriotically agreed to join the National Government formed by his chief rival, Mr. G. W. Forbes. In it he ranks as second in command, and when domestic problems prevented the presence of Mr. Forbes at Ottawa, he became head of his country's delegation. A man of fine presence, he would be the last to lay claim to the possession of any meteoric gifts of intellect, and he has marked deficiencies as a public speaker. But he has a fund of vigorous industry and practical good sense which constitutes no mean equipment for a Dominion statesman. He has all the cautious outlook of the born countryman, and will never be tempted by rash adventures in wild social and economic experiments. He is primarily interested in the fortunes of the farming community of New Zealand, and he would, it is believed, be prepared to keep New Zealand's fiscal barriers against British goods at a very low level, provided, however, that New Zealand is given more and better preferences for her farm produce in the British market. He has also emerged as a zealous protagonist of currency reform on some plan which will have the effect of raising commodity prices and bettering the fortunes of the embarrassed farmers of New Zealand.

It is, however, no disparagement to Mr. Coates to suggest that his colleague, Mr. Downie Stewart, despite the handicap of a physical disability which compels him to use a wheeled chair, will make a more important contribution to the deliberations of the Conference. A barrister by profession, and a gallant soldier in the war, Mr. Stewart learnt politics at the knee of his sire, who was also in his day a prominent politician. Entering politics himself in 1913, he has for many years been reckoned the best political brain in New Zealand, and is the intellectual mainspring of the National Government, in which he holds the dual

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offices of the Ministries of Finance and Customs. There is no greater authority upon the economic and political problems of New Zealand, and M. André Siegfried paid him the compliment of seeking his collaboration in writing his book *Democracy in New Zealand*, as did Professor Le Rossignol in another work styled *State Socialism in New Zealand*. In his outlook Mr. Stewart might be classified as a Liberal-Imperialist, and he brings to the council board an acute mind, a charming personality, and a whole-hearted zeal for the economic consolidation of the Commonwealth.

Of very different antecedents and temper is Mr. N. C. Havenga, the Finance Minister of the Union of South Africa, who heads its delegation. An intimate comrade of General Hertzog since the far-off day when he left his studies in 1899 as a stripling to share with him the hazards and hardships of a hopeless struggle against the might of Great Britain, his experiences of the war years in which he was severely wounded and taken prisoner, are said to have left bitter memories. Entering the Union Parliament in 1915 as a member of the Nationalist party, which his old commander had founded, his natural flair for politics soon brought him to the front, and, when his party came to office in 1924, nobody else was seriously considered for the important Ministry of Finance. South Africans of British stock have been disposed to suspect him of a dangerous lukewarmness with regard to the British connection, but while he has steadily supported his leader in his efforts to secure a complete emancipation for South Africa from the leading-strings of Downing Street, he has always declared that she must remain a loyal partner in the Commonwealth. A capable administrator of the national finances and a competent public speaker, he has been a firm advocate of a protective system which would give South Africa her share of secondary industries, but he is also essentially a realist who knows that for some time to come South Africa must depend for prosperity upon her primary industries, and that a policy of economic isolation which would

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hinder the acquisition of profitable export markets is unthinkable for her. He is also an unwavering champion of the gold standard and its restitution in countries which have abandoned it, and he would fight to the bitter end against the schemes of various schools of currency reformers who regard the gold standard as an anachronism. His two colleagues, Mr. Fourie and Mr. Grobler, partake of Mr. Havenga's memories of the South African war, and both belong to the extremist wing of the Nationalist party; but they lack their colleague's abilities and political insight, and will in the main no doubt be content to follow his lead at the Conference.

At the head of the Indian delegation is one of the most distinguished of Indian statesmen in the person of Sir Atul Chatterjee. A graduate of Cambridge, he has spent the best part of his life in the service of the Government of India, and has occupied a series of high positions; he was for a period a member of the Viceroy's Council, and only recently laid down the office of High Commissioner for India in London. He is a cultured man of liberal outlook with a wide experience of public affairs, and has always been a firm upholder of the British connection. With him are associated Sir George Rainey, a Scot who has had a distinguished career in India, and was lately Minister of Industry and Commerce in the Viceroy's Cabinet, Sir Padamji Ginwala, a Parsee, who has served as Chairman of the Indian Tariff Board, and Said Haji Abdul Haroon, a Moslem merchant from Karachi, who is a member of the Legislative Assembly of India.

The Irish Free State delegation have come in the rôle of watchful observers rather than as active participants in the Conference; at their head is Mr. Sean O'Kelly, a veteran of the Sinn Fein movement, and with him are two younger politicians, Mr. Sean Lemass and Dr. James Ryan.

Newfoundland is represented by Mr. F. C. Alderdice, an Ulsterman who, fresh from a decisive triumph of his party at a general election, had scarcely settled down in

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office when he had to leave for Ottawa, and a small delegation from Southern Rhodesia is headed by its Premier, Mr. H. W. Moffat, a nephew of the great explorer, Dr. Livingstone, who, through long residence north of the Orange River, has a complete familiarity with the needs and problems of his country. Altogether there have gathered at Ottawa an impressive band of British statesmen and, if the Conference fails, it should not be from lack of political experience and wisdom.

### II. THE BROADCASTING PROBLEM

**A**RADICAL step was taken in respect of radio broadcasting at the last session of Parliament when an Act was passed giving effect to the principle that "broadcasting should be placed on a basis of public service," and that the stations providing such service should be owned and operated by one national company organised and controlled by the Government.

This legislation was based on the report of a Parliamentary Special Committee appointed early in the year to consider the report of a Royal Commission on radio broadcasting under the chairmanship of Sir John Aird, President of the Canadian Bank of Commerce, which, after an extensive investigation, delivered its findings to the Government in September, 1929. The delay of more than two years in following up the so-called Aird Report was due not merely to the change of Government which took place in 1930, but also to the litigation over the constitutional question raised by the province of Quebec, as to the right of the Dominion to legislate with regard to radio broadcasting. Quebec's contention that the subject was one which fell, in part at least, within provincial jurisdiction was, however, rejected by the Judicial Committee of the Privy Council in a judgment delivered in February 1932, and thereupon the Dominion Government proceeded without delay. It is of interest to note that the judgment, like that of the same Court in the recent case on the regulation of aviation, laid special emphasis on the fact that

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Canada was a signatory of an international convention with regard to wireless (signed at Washington in November 1927), and declared that such a convention could not be distinguished from a treaty with foreign countries, the obligations arising under which the British North America Act specifically provides that "the Parliament and Government of Canada shall have all powers necessary or proper for performing." This necessarily involves, the judgment declares, the right to legislate with regard to radio broadcasting so as to bind all the inhabitants of the Dominion, since in no other way could the Dominion guard against infringement by its nationals of the stipulations of the convention.

As the recommendations of the Parliamentary Special Committee largely followed those of the Aird Report, it will be well to begin with the latter. The terms of reference of the Aird Commission were :

To examine into the broadcasting situation in the Dominion of Canada and to make recommendations to the Government as to the future administration, management, control and financing thereof.

The system which the Aird Commission found in existence was one of private enterprise, except in Manitoba where the stations were owned and operated by the provincial Government. Full jurisdiction over the administration of all radio matters in the Dominion, including the licensing and control of broadcasting stations and the granting of receiving licences was vested in the Minister of Marine and Fisheries, and the Dominion maintained a free inspection service which included the detection and elimination of interference caused by faulty power systems. There was also provision for the subsidising of private commercial stations deemed worthy of financial assistance, but this had never been given effect to except in the case of the province of Manitoba, where half the receiving licence fees had been granted in aid of the provincial system. The number of broadcasting licences in effect in 1930 was 78 private commercial and 9 amateur, a total of 87; and there were, in 1929, about 297,000 receiving licences.

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The outstanding features of the evidence given before the Commission were, it declares, (1) the tendency for advertising to bulk too large in the programmes offered, and (2) the foreign source of the majority of programmes. The reason for the undue amount of advertising is financial. The lack of direct revenue to the private commercial stations from the entertainment provided for the public forces them to resort to advertising as a means of revenue. The result is not merely an undue insistence on the merits of certain tooth-pastes and corn-plasters, but "the crowding of stations into urban centres and the consequent duplication of services in such places, leaving other large populated areas ineffectively served." The foreign source of the majority of programmes is explained, of course, by the proximity of the United States with its largely similar language and its great development of the technical and social possibilities of wireless. Nothing impressed the Commission more than the danger of the private enterprise system resulting in tens of thousands of Canadians taking their ideas and their tone from so-called entertainments provided by foreign commercial agencies, whose sole pre-occupation is to give the public what it wants, because their sole objective is profit through advertising. Nothing impressed the Commission more than this danger unless it was the potentialities of broadcasting as an instrument of education, not merely in the sense of academic instruction, but in providing the right kind of entertainment and informing the public on questions of national interest. Particularly in a country of the vast extent of Canada, with so many people living more or less isolated lives, the Commission felt that broadcasting could be made "a great force in fostering a national spirit and interpreting national citizenship."

Such were, according to its Report, the chief considerations "on the merits" which led the Commission to recommend in favour of placing broadcasting "on a basis of public service." There was also, it should be added, the fact that it found, amid considerable diversity of opinion

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on various phases of the subject, "unanimity on one fundamental question—Canadian radio listeners want Canadian broadcasting." There was almost entire unanimity, also, among the various provinces; with the exception of Quebec and New Brunswick, all expressed themselves as "ready and willing to enter into negotiations with the Government of Canada and the Governments of the various provinces with a view to the organisation of radio broadcasting on a basis of public service." Quebec and New Brunswick both declared themselves in favour of a definite policy being established by agreement between the Dominion and the provinces, but insisted that jurisdiction lay with the provinces and not with the Dominion. This, of course, was prior to the ruling of the Privy Council in favour of the Dominion.

In view of this large measure of unanimity, the Aird Commission recommended, *inter alia*, in favour of broadcasting being placed on a basis of public service, the stations providing the service to be owned and operated by one national company working in collaboration with a provincial authority in each province which should have full control over programmes in its own territory. A series of high-power stations throughout the country was recommended, supplemented where necessary by stations of lower power in local areas. Direct advertising was to be prohibited, and specified time was to be made available for educational work. Funds were to be provided from the revenue produced by licence fees, rental of time on stations for programmes employing indirect advertising, and a subsidy from the Dominion Government.

The two-year interval between the filing of the Aird Report and the appointment, following the Privy Council judgment, of the Parliamentary Committee, was marked by the active prosecution of the debate between the advocates of private enterprise and the champions of public ownership and control. On the one side were ranged organisations representing the station owners, the manu-

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facturers of radios and the advertisers, and on the other such bodies as the Canadian Radio League and the all-Canadian Congress of Labour, practically all the educational authorities and others.

So thoroughly had the question been canvassed that the hearings of the Parliamentary Special Committee appointed early this year to consider the recommendations of the Aird Report brought out little that was new in information or argument. On the side of private enterprise the chief considerations urged were that to forgo the revenue derived under the present system from advertising would mean an undue cost to the public if programmes equal to those now provided are to be maintained ; that the present system was already alive to the educational potentialities of the radio and was ready and able to extend its service in this direction as desired and, in any case, that there was no more reason for the State to control radio broadcasting than to control magazines or the daily press ; that a public ownership system would inevitably mean less progressiveness and less keenness to take advantage of new developments ; that the science of radio was only in its infancy, and that it would be unwise for large capital expenditure to be made by the Government which new inventions—the perfection of television was particularly emphasised—might presently render more or less useless.

As against these arguments, it was urged that the system of financing by means of advertising alone could not provide programmes of the quality and range that should be provided ; that the present private ownership system meant duplication in the more populous sections of the country and neglect of outlying districts ; that a purely commercial system, whose main consideration was necessarily profit, could not be expected to make radio broadcasting the servant of education as it might and should be made ; that “ the air ” was, so to speak, a national resource, and a national resource which could be made a powerful instrument of education and enlightenment, and that it should not be

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turned over to private interests to be exploited for private gain.

The questions that evidently assumed the greatest importance in the minds of the Committee were those of cost and of the best method of realising the potentialities of radio broadcasting as an instrument of education. On the question of cost the evidence was decidedly conflicting. The Aird Report estimate was a capital outlay of about \$3,225,000 and an annual expenditure of about \$2,500,000. The sources of revenue suggested were a licence fee of \$3.00, rental of time for a limited amount of "indirect" broadcasting (*i.e.*, the mere mention of the name of the sponsor as distinguished from a description and crying up of the sponsor's products), and a subsidy from the Dominion Government of \$1,000,000 per annum. The opponents of public ownership, on the other hand, estimated an initial capital outlay of \$5,400,000 and an annual expenditure of \$5,725,000. As regards revenue, it was urged that not more than \$1,500,000 could be realised from licence fees, and that if direct advertising were prohibited, the revenue from rental of time would be practically nil, with the result that there would be an annual deficit of \$4,200,000 unless the licence fees were increased to at least \$7.00 per receiving set. No definite pronouncement was made by the Committee as to which set of figures it accepted, but it is to be noted that it varied the suggestion of the Aird Report that all "direct" advertising should be prohibited, recommending that advertising be limited to 5 per cent. of each programme period. Another consideration besides that of revenue which led to this decision was that, unless advertising were allowed, to at least a limited extent, American industries interested in selling goods in Canada would have a decided and unfair advantage over their Canadian competitors.

But the question which overshadowed all others in the minds of the Committee was that of making the most of

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radio broadcasting as an agency of education and enlightenment. Striking evidence was given of the possibilities in this direction. The Director of the Department of Extension of the University of Alberta told them of 2,000 people studying Canadian history one night a week, including a considerable number of the 70,000 Ukrainian inhabitants of the province who, of course, were at the same time improving their knowledge of English; of programmes of Ukrainian folk-songs and dances arranged by an Edmonton Ukrainian choir; of 2,000 people studying French under a university professor of French two afternoons; of an indignant protest from a large group of Calgary business men because the broadcast was not in the evening, as several hundred residents of Calgary were anxious to take the course. A letter written in French from a French-Canadian mine-operator in a country district gives a vivid picture of the service that is being rendered:

You would be interested if you could look in on us during one of your French lessons. The men under my charge are a mixture of French and English. We all come up from the mine at 4.45 p.m. so as to be ready for your lecture at five o'clock. The Englishmen are learning to speak French and the Frenchmen are learning to speak more correctly. We use pencils and note-paper and our discussion goes on for half an hour after you have stopped talking. I wish also to say how much this course is appreciated in my own home, where my children have an opportunity of hearing our language spoken correctly.

Similar courses were conducted in English literature, economics, advances in science, international affairs, practical farm problems and other subjects, while programmes of good music and good plays were also regularly given. It was the considered opinion of the university authorities that, from the point of view both of primary and of adult education, satisfactory results could only be obtained by making radio broadcasting a national service. In the field of primary education it was felt that no commercial organisation, however intelligent and beneficent, could achieve what has been done in the State of Ohio,

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where under the State Department of Education there are more than 6,000 schools equipped with receiving sets, and every day the children put away their books at certain periods and listen to travel talks by great explorers, lessons in geography by people who know the country under discussion, little historical dramas, musical appreciation, talks on science by expert teachers, and the like. As regards adult education—and it was emphasised that the wise use of leisure will be one of the greatest social problems of the future—it was pointed out that the only hours that are worth much for courses of instruction are evening hours, which naturally, are the “peak hours” from a revenue point of view for a commercial system which depends for its existence upon advertising.

Views of this kind clearly made a deep impression on the Committee, supported as they were by evidence of growing apprehension in the United States about the effect of what is virtually a private commercial monopoly of radio broadcasting in that country. A large and representative number of educational organisations, the American Federation of Labour, and 1,100 daily newspapers have all been waging war on the Radio Corporation of America and the commercialisation of the air. Mr. Hoover in 1924, when he was Secretary of Commerce, declared that it was “not conceivable that the American people will allow this new-born system of communication to fall exclusively into the power of any individual group or combination.”

American experience served to confirm the Committee in the view to which the bulk of the evidence in general seemed to point, namely that radio broadcasting is essentially “a natural monopoly,” and that the only question is whether the monopoly should be granted to private interests or retained by the State. That position reached, there was, in view of the evidence, only one answer which the Committee could give—that the monopoly should be exercised by the State itself. It was suggested that there should be a compromise solution—

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ownership by a private corporation representative of the railway companies and other large interests, together with supervision and control by a government commission. The decision of the Committee, however, was against any such half-way house. The result was a clear-cut recommendation in favour of the principle of State ownership, control and operation.

Legislation following closely the recommendations of the Committee was passed practically without opposition. It constitutes a Canadian Radio Broadcasting Commission which is to have power "to regulate and control broadcasting in Canada carried on by any person whatever." Power is given to acquire existing private stations, to construct such new stations as may be required, to foster the establishment of small stations with local coverage, and in brief to take the steps necessary to ensure that there shall be adequate broadcasting to all parts of Canada, irrespective of the density of population. Complete control of programmes is vested in the Commission, which is to be assisted by a deputy commissioner, and an advisory council in each of the provinces. As regards finance, the Commission is limited to the revenue from receiving and private broadcasting licence fees, and from rental of time for advertising, which is not to exceed 5 per cent. of any programme period. The permission of a limited amount of advertising is intended, besides bringing in revenue, to prevent discrimination against Canadian manufacturers in favour of their American competitors.

The new legislation has been well received by the press and the public, and it may be assumed that it has the approval of the great majority of the people. Among the reasons for such approval, not the least significant is the underlying feeling that, good friends as we desire to remain with our great neighbour, we must live our own life and shape our own future.

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### I. THE ECONOMISTS' REPORT

THE quarter under review has been full of exciting political and constitutional experiences for the people of Australia. The struggle between the Commonwealth and New South Wales Governments and the measures resorted to by each, the dismissal of Mr. Lang by the Governor of New South Wales, general elections in three States, the supersession of Labour Governments in the two largest States and the accession of a Labour Government to power in Queensland, the Privy Council decision in the New South Wales Legislative Council case, the minor but piquant situation in Victoria, where the absent Premier and a faithful remnant of Ministers sought the confidence of the electors upon the main plank of the Opposition programme, while the acting-Premier and the main body of the Cabinet appeared to be trailing in the tracks of Mr. Lang—these were enough to satisfy the keenest and most exacting appetite. In the present economic situation and in view of the integration of policy and finance demanded by the Financial Agreement, the complexion of government in every State is a matter of concern throughout the Commonwealth, so that State politics are of Australia-wide interest. The implications for the federal system of the measures which the Commonwealth Government applied to Mr. Lang, and the constitutional aspects of the dismissal of a Ministry, matters which in other circumstances would characteristically have played a major part in the parliamentary and electoral

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battle, were submerged ; what was at stake was so immediate and so pressing as to leave little time or room for constitutional issues.

The month of April opened with a conference of Premiers convened by the Commonwealth Government to consider what steps could be taken to assist in the solution of the unemployment question. A small committee of economists, Treasury officials and business men, was set up to make a preliminary economic and financial survey, and the result was a report which covered the ground of fundamental causes, the effects of remedial measures hitherto undertaken, prospects and plans for the future. The extent of unemployment was illustrated by the fact that 28 per cent. of trade union members were out of employment. The basic fact was that the present overseas price of Australian exports was only 32 per cent. in gold, 44 per cent. in sterling and 57 per cent. in Australian currency, of what it had been in 1926-7. Reviewing the measures taken, the Report referred to the "Premiers' Plan" \* of 1931, and the Committee was satisfied with the Plan but only moderately satisfied with the way in which it had been carried out. The Plan contemplated a reduction of the total deficits for the current year to £14.65 million. But this reduction would not be realised : deficits of £18,000,000 must be faced. In the sphere of adjustable government expenditure (*i.e.*, other than interest) substantial reductions had been made, ranging from 15 per cent. in New South Wales to 29 per cent. in South Australia ; in the particular item of wages and salaries, the average reduction ranged from 12.8 per cent. in New South Wales to 20.5 per cent. in Victoria. The most complete achievement of the Plan was the reduction of interest, ranging from 25 per cent. to 33 per cent. Outside government expenditure, reductions in the cost of production had been effected by the reduction of interest, somewhat counteracted, however, by defects in the moratorium

\* See *THE ROUND TABLE*, No. 84, September 1931, pp. 892-895.

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legislation of some States, which required the mortgagor to show cause, and by a tendency in lenders to raise rates on renewal of loans. But it was part of the scheme of the Committee of Experts advising the Premiers in 1931 that there should be an all-round reduction of 10 per cent. in real wages (as distinguished from nominal wages) as part of the conditions necessary to bridge the gap between costs and prices. This had not, however, been given a trial, and the inaction of State authorities had led to an average increase of 8 per cent. in real wages, in the case of those in employment in the industries governed by these awards. The net result all over Australia was that on the average there had been no reduction in real wages at all, and therefore no contribution from that source to the absorption of the unemployed in profitable production.

Turning to the future, the Committee found that indications pointed to total budget deficits of £22,000,000 for 1932-33, and they considered it necessary that immediate consideration should be given to steps necessary to bring that amount down to £12,000,000. They pointed to the formidable debt of £42,000,000 on Treasury Bills. As yet this had served to sustain rather than to raise internal prices, as the money had been found through the repayment to the banks of advances by private borrowers and the absence of any effective demand for accommodation by producers and traders. But such methods of public finance endangered currency control, and the disastrous results of the loss of such control were vigorously portrayed in the Report.

For establishing equilibrium between costs and prices the Committee's recommendations were a judicious mixture of reduced costs and a high rate of exchange. The first was to be sought by carrying out in their completeness the proposals of the 1931 Plan—real wages generally must be reduced by 10 per cent. below the level of 1928, and the wage-fixing authorities must give effect to economic conditions ; where interest was not reduced, compulsory

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measures must be taken. The raising of prices should be attempted by authorising the Commonwealth Bank to manage the exchange rate, in the light of economic conditions.

The required fall in nominal wages would (the Committee pointed out) be made less severe by a rise in the rate of exchange setting in operation forces tending to raise all prices and thus to offset the fall in prices resulting from lower wages. We should thus have attained the lower level of wages with a steadier level of prices. The degrees of the reduction of wages and of the increase in the rate of exchange would need to be chosen with a view to a minimum dislocation in budgets and in nominal wages.

As regards the immediate burden on budgets through increased exchange for internal payments abroad, the suggestion is made that,

if the rate is properly chosen the revenue will in a year or two increase to a degree more than sufficient to pay the added cost of the exchange. The increase would cause some apprehension in London and a fall in the price of Australian stocks, but these fears would be allayed as business activity improved, and as budgets approached a balance, just as in Britain after the departure from the gold standard.

As against an exclusive resort to either of the alternatives of an all-round reduction of costs with a view to returning to parity with gold or sterling, or of raising the local price level by means of the rate of exchange, the Committee considered that—

The logic of facts might well impose the middle course suggested, just as it imposed Britain's departure from gold. Any policy will involve in present circumstances difficulties and dangers. These may be the greatest if we drift without a definite aim or plan, incurring a series of growing deficits, destroying confidence in the currency and its guardians, and exhausting the country's reserves of working capital.

But an essential condition was the existence of a central reserve bank free from both the fact and the fear of political

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control and prepared to administer its part of the policy adopted in the general interest.

Turning to the measures available to Governments for the purpose of effecting an immediate absorption of unemployed, the Committee reported that every reason was against an extended programme of public works, but means of equipment for the storage and handling of wheat in bulk and the planting of soft woods, and the proper care of native forests appeared hopeful avenues for reproductive activity. The removal of hindrances to industry, such as the tariff and the numerous restrictions imposed by obsolete regulations and industrial awards, would provide openings for labour and capital. As prices and costs were brought into harmony, and while private capital was still timid of venturing into undertakings, Governments might give an impetus to investment by loans, secured by debentures, to private enterprise holding out prospects of future development on a large scale. But unless overseas prices improved none of these measures could deal adequately with unemployment, and the community was faced with the need of providing sustenance. While sustenance should in general be for work done, it must be recognised that it cost more to provide sustenance by intermittent work paid at basic wage rates than it did to provide mere sustenance. The best hope of turning sustenance money into payment for work was in rural industries, where much could be done if labour and capital were cheap. As sustenance payment might be used to provide labour at a low cost, the temptation to farmers to dismiss employees in order to obtain subsidised labour might be obviated by local organisation. It might also be possible to arrange for subsistence farming by families in receipt of sustenance. On a block of, say, five acres, equipped with a temporary dwelling and domestic stock by the farmer on whose land it was situated, the tenant would raise most of his subsistence and give a certain amount of work on the farmer's land. "An ultimate object of the scheme, apart from the attempt to

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provide subsistence for the unemployed man with a family to support, would be the creation of a land-owning peasantry, the absence of which has been a marked feature of the Australian countryside in areas climatically suited to it."

The Prime Minister accepted the principles of the Report and when the Premiers' Conference met on April 14 he proposed that the Commonwealth and the States should co-operate, on the basis of the conditions laid down, in obtaining from the banks—recourse to the public was not deemed feasible—a substantial sum, "say, £10,000,000," to be expended on objects contemplated in the Report. But Mr. Lang would not even discuss a project which, he said, exploited the sympathy of Australians for the unemployed and used it as a lever to strike down all the industrial conditions that the workers had built up in health, time, and money, over forty years. "Having started on the road to restriction and deflation," he said, "there is no logical end to it. It can be stopped in one way only, and that is by Governments and people saying 'We will not move an inch further along the road we have been going.'" It was the interest payments that were pulling Australia down. And with this Mr. Lang departed for Sydney. The defeat of the Labour Government on a vote of want of confidence left Victoria at first unrepresented, and when, a dissolution having been granted, Mr. Tunnecliffe, the acting-Premier, appeared at the Conference, it was to reject the conditions laid down by the Prime Minister. The Nationalist Premier of Queensland hesitated on the question of exchange management, and, with a general election pending, was alive to the political dangers that faced a Ministry pledged to further wage reduction. In the result, the major matters of raising the exchange and reducing wages were postponed until a further conference to be held in June, when the Victorian and Queensland elections would be over. But arrangements were effected by which each of the States other than New South Wales could borrow its assigned quota out of an

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amount of £1,200,000, and the Commonwealth would contribute an amount equal to this quota. No participation by the New South Wales Government in any loan effected by the Commonwealth being at the time possible, the Commonwealth undertook to provide and spend in New South Wales what would have been the quota of that State in a £1,800,000 scheme, i.e., £600,000.

Apart from politics, there were characteristic reactions to the Economists' Report. One forecast was immediately fulfilled—the belief that the exchange rate was to be raised forthwith from £125 to £135 caused a fall in the price of Australian securities in London, and there was a quickened demand for exchange on London in order to get money out of Australia before the threatened impost became effective. With one important exception, the banks were opposed to the proposal and commercial opinion was the same. There was scepticism about freedom from political control, seeing that the proposal itself was one of policy. Labour organisations and the public servants declared themselves against wage reduction, and looked to "taxation on higher incomes" and "changes in monetary policy." The original plan was attacked from both sides as having aggravated rather than mitigated the situation, on the one side because of its deflationary character, on the other because legislative interference with private contracts had cut away security from beneath the feet of lenders and encouraged repudiation by debtors rather than an honest will to meet obligations, so that lack of confidence closed the avenues for private investment and enterprise and public faith in government credit: the result must be an increasing dependence of economic life upon resort by Governments to the banks, and socialisation resting upon the growing insecurity of the financial basis. Another view of the situation accepts the principle of the Premiers' Plan, that the catastrophic fall in prices requires adjustments other than those which would have taken place automatically as a result of mere economic pressure, but

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challenges claims or attempts to extend them to cover the whole gap between the prices of 1929 and those of to-day. In 1929 Australia was still living in a boom condition with inflated ideas of values, and the usual accompaniment of extravagance and inefficiency ; it would be as unwise as it is unnecessary to resort to exchange control for the elimination of a salutary corrective. The real aim to which government planning should be directed is the balancing of budgets both on a short and a long term view of the situation. This requires a highly skilled reorganisation of public administration, and a review of the several State services, whether they be strictly "governmental" or in the nature of "socialistic enterprise." Much capital would have to be written off to put the latter on a sound financial basis. But if this were done, and the management freed from political interference, the resulting economies and efficiency would soon make themselves felt in decreased expenditure and increased revenue. The charge of lost capital has to be borne in any case by the public account, and an amortisation scheme should be adopted for its gradual extinction. In some people's view, this reorganisation is the most urgent problem that Australian Governments have to face, and its accomplishment the most important contribution that Governments have now to make towards the restoration of credit and prosperity.

The Premiers' Conference resumed its sessions on June 28, attended by the new Premiers of New South Wales, Victoria and Queensland, just as this article was leaving Australia.

### II. THE FALL OF MR. LANG AND THE STATE ELECTIONS

**I**N the last issue of **THE ROUND TABLE**,\* an account was given of the far-reaching provisions of the Financial Agreement Enforcement Act. As soon as the High Court

\* **THE ROUND TABLE**, No. 87, June 1932, p. 638.

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declared the Act valid, the necessary proclamation was issued under it to attach a part of the State revenue. The first to be attached was the income tax payable to the State. Taxpayers who had received assessments were directed to pay their taxes into the Commonwealth Bank in Sydney and not to the State taxation authorities. These instructions were for the most part readily observed by the taxpayers of New South Wales, but the Government of the State made every effort to frustrate the effective working of the Commonwealth law. The doors of the State taxation department were locked, and Commonwealth officers were refused access to the records. No notices of assessments were sent out, and the collection of income tax was therefore temporarily suspended. The Commonwealth Government then proceeded to put into operation those provisions of the Act by which the Commonwealth was empowered to obtain all the moneys of the defaulting State which were deposited with its bankers. Before the Enforcement Act came into operation the New South Wales Government had withdrawn from its bankers over a million pounds in cash and had deposited it in the New South Wales Treasury. The Commonwealth, therefore, could not expect to receive a sufficient sum from the banks to recoup itself for the payments it had made on behalf of New South Wales. But the amount involved in the demand on the banks was substantial. The position was complicated by the fact that part of the funds which had been paid into the banks represented moneys paid to the credit of the State Government for special purposes, such as, for example, moneys of suitors paid into the State Supreme Court.

The High Court sustained the banking provisions of the Enforcement Act by a majority of four to two. On April 22 the Court by a majority of five to one dismissed the State Government's application for a certificate of appeal to the Privy Council against the decision upholding the validity of the Act. This was in accordance with the

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established practice of the Court to determine finally in Australia constitutional questions arising between the Commonwealth and the States.

Unable to pay any money into the bank without at once losing it to the Commonwealth, the State Government paid all money received into the Treasury, and instructed the heads of departments and other civil servants to follow that practice. As the New South Wales Audit Act requires that moneys received to the credit of the State should be paid daily into a bank account, this action of the Government appears to have been a breach of the law. On April 26 the State Parliament met. It was generally expected that a Bill would be brought down to amend the Audit Act and so render lawful this failure to observe its provisions. But this was not done.

On April 29 the Enforcement Act was amended by the Federal Parliament so as to increase the powers of the Commonwealth Government and add to the list of attachable revenues. The Commonwealth also made a formal demand that the State Commissioner of Taxation should hand over all assessments and other documents to the federal officers so as to enable the Commonwealth to collect the income tax. This demand was not fully complied with until May 12. On May 5 a further amending Act was passed by the Federal Parliament which added a part of the receipts of the State railways and tramways to the revenues which the Commonwealth could attach. Meanwhile there had been further defaults by the State Government for which the Commonwealth had to assume responsibility, and the total sum due by New South Wales to the Commonwealth was declared by the High Court to be £2,029,432 on May 4.

The State Government, by using the cash at the Treasury, was able to pay its civil servants. But it failed to make payments of child endowment moneys and pensions to widows and superannuated civil servants, and announced that it might have to suspend entirely all "social services"

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payments such as the dole to the unemployed. The Prime Minister asserted that these actions of the State Government were unjustified, and were only an attempt by the Premier of New South Wales unfairly to fasten on the Commonwealth the blame for a position which he had himself created. The Commonwealth Bank, it was stated, would provide means for the payment of all State revenue due to particular individuals, and the Enforcement Act was amended so as to facilitate this. But Mr. Lang refused to use the banks.

Following further resolutions of the Commonwealth Parliament, on May 5 proclamations were issued to attach the following State revenues : death duties, stamp duties, licences and fees from the liquor trade, revenues from Crown land, motor registration and licence fees. The next step was a Commonwealth proclamation requiring all civil servants, whose duty it was to receive any part of the attached revenues, to pay into the Commonwealth Bank whatever moneys came into their hands from these sources. This proclamation operated as from May 11. A circular issued from Mr. Lang's department on May 10 directed that, notwithstanding the Commonwealth proclamation, all moneys collected should be paid into the Treasury. The Commonwealth proclamation appears to have been almost universally disobeyed, owing, in part, to pressure brought to bear by the Ministers in charge of the various departments. One State officer, who endeavoured to carry its requirements into effect, found that his directions were countermanded by the Minister for Lands, and he himself was ordered to "go on leave."

Meanwhile the Parliament of New South Wales had not been idle. A Mortgages Taxation Bill was introduced in the Legislative Assembly on May 11. This measure, which was described as a capital levy, provided, among other things, that all mortgagees or their attorneys or agents should be liable to pay a tax of 10 per cent. of the amount secured by their mortgages within fourteen days

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of the commencement of the Act. Failure to do so would result in the mortgages becoming vested in the Crown. The Bill passed the Assembly where an obsequious majority had long been accustomed to obey all the behests of the Premier. In the Legislative Council some supporters of the federal Labour group voted with the Government, and the Bill was passed by 48 to 43 in the early morning of May 13 after an all night sitting.

The outlook seemed hopeless chaos, especially for the banks and insurance companies which had advanced huge sums on mortgages. One insurance company alone would have had to pay in cash over one million pounds. In some quarters it was thought that the Bill was one which by his instructions the Governor was required to reserve for the Royal assent. Before this had been determined, however, the Federal Parliament met and passed through all its stages a Bill designed to nullify and render inoperative the New South Wales measure. Later in the same day came the dramatic news that the Governor, Sir Philip Game, had dismissed his Ministers and sent for Mr. Stevens, who had recently succeeded Mr. Bavin as leader of the Opposition, and commissioned him to form a Government.

The dismissal of the Government came as a surprise, as up to that time the Governor had refused to intervene, despite considerable agitation that he should do so. The correspondence which led up to the dismissal commenced on May 12, when the Governor asked for the circular of May 10 (already referred to). A copy was forwarded to him, and he then wrote to the Premier.

I have received the copy of the circular for which I asked you. It appears to me that the terms of this circular direct public servants to commit a direct breach of the law as set out in proclamation No. 42 of 1932. . . . I feel it my bounden duty to remind you at once that you derive your authority from His Majesty through me, and that I cannot possibly allow the Crown to be placed in the position of breaking the law of the land. I must ask you, therefore, either to furnish me with proof that the instructions in the circular

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are within the law, or, alternatively, to withdraw the circular at once.

Mr. Lang replied, stating that the circular "represents the decision of Cabinet, and no doubt was arrived at after consideration of the primary duties of maintaining the essential and social services of the State. The only reply you can be given is that the circular cannot possibly be withdrawn."

Subsequently on the afternoon of May 13 the Governor, after an interview with Mr. Lang, wrote again :

The position as I see it is that Ministers are committing a breach of the law. Into the aspect of justification it is not, as I conceive it, my province to inquire. My position is that if my Ministers are unable to carry on essential services without breaking the law, my plain duty is to endeavour to obtain Ministers who feel able to do so. As I have already pointed out to you in my letter of the 12th instant, it is impossible for me to put the Crown in the position of being a party to illegal action. If Ministers are not prepared to abide by the law then I must state without any hesitation that it is their bounden duty, under the law and practice of the Constitution, to tender their resignations.

To that letter Mr. Lang replied : "If your letter of to-day's date means that you are requesting the resignations of Ministers, you are hereby informed that your request is refused."

Later in the same afternoon Sir Philip Game replied :

Your letter informing me that Ministers are not prepared to tender their resignations has just reached me. In view of this and of your refusal to withdraw the circular, I feel it my bounden duty to inform you that I cannot retain my present Ministers in office, and that I am seeking other advisers. I must ask you to regard this as final.

The new Government obviously could not meet the House, and it at once asked for, and secured, a dissolution. Mr. Stevens made it clear, however, that under his Government New South Wales would work harmoniously with the rest of the Commonwealth, and that there would be no more talk of deliberate repudiation. The Commonwealth

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Government suspended the operation of the Enforcement Act, and the State financial administration became normal again. The elections were held on June 11. They resulted in a sweeping victory for the joint forces of the United Australia party (the successor of the old Nationalist party) and the Country party. In the last Parliament the Labour Government had 55 supporters and the Nationalists and Country party 35. In the new Parliament the Government has 66 and the Labour Opposition only 24. Both in the city and in the country, constituencies which for years had consistently returned Labour members are now represented by Government supporters. Several former Ministers lost their seats, and Mr. Lang himself only narrowly escaped being defeated by a candidate supporting the policy of the Federal Labour party. It is not to be overlooked, however, that of 1,322,513 votes cast, 531,422 were cast for Mr. Lang's supporters. The most important issue at the elections probably was whether or not New South Wales was to abide by the decisions of the Premiers' Conference and so play its part in co-operation with the other States in a united attempt to overcome the present financial and economic difficulties. But the result of the poll must not be interpreted simply as a popular endorsement of this policy. It is to be attributed largely to a desire for stable and honest government, to a hope that with a change of government unemployment may diminish, and to a strong belief that the Government led by Mr. Lang was corrupt and rapidly bringing the State to complete economic ruin.

The new Government is led by Mr. Stevens. His Ministry is a composite one selected from both the United Australia party and the Country party.

The events of the last two months in New South Wales have well illustrated Dicey's statement that "federalism means legalism." The contest between the Commonwealth Government and the Government of the State was fought out in Parliament and the law courts. Despite

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some arrogant threats of civil war by supporters of the State Government, hot headed language on both sides, and some anxiety among more level headed people, there was no violence of any kind.

The dismissal of the Lang Government has also shown the close interdependence of the several States of the Australian federation and the dominance of the federal law. A State Government was dismissed by a State Governor because it persisted in requiring its servants to contravene a federal law prescribing the manner in which, in the peculiar circumstances, they should carry out their duties. Constitutional theory in Australia has now travelled far from the early doctrines of the immunity of State instrumentalities and non-interference by the Commonwealth in State affairs. Federal control has been becoming steadily more pronounced and more extensive. The Financial Agreement has had an effect, greater perhaps than was anticipated, in promoting a large measure of practical unification in Australia. Even before 1929 its financial supremacy was giving the Commonwealth a greater power over the policies and Governments of the States than the mere words of the Constitution would indicate. It is now clearer than ever that, if it is to pay the piper, the Commonwealth will insist on calling the tune.

In the middle of the New South Wales electoral campaign the Judicial Committee of the Privy Council delivered its reserved judgment on the question of the abolition of the New South Wales Upper House. Its decision affirmed that of the majority of the judges both of the Supreme Court of New South Wales and of the High Court. The dismissal of the New South Wales Government's appeal means that the Legislative Council cannot now be abolished except in the manner provided by the New South Wales Constitution Amendment Act, 1929, that is, by referendum. The decision serves to emphasise the fact that the Legislature of New South Wales is different from the Imperial Parliament. It has a purely

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statutory origin, and its powers are prescribed by the Imperial Acts which created it, and particularly by the Colonial Laws Validity Act, 1865, Section 5, which requires that laws making alterations in the Constitution must be "passed in such manner and form as may from time to time be required by any Act of Parliament or colonial law for the time being in force."

### *Victoria*

In Victoria the attitude of the Labour Government to that part of last year's Premiers' Plan which required a reduction of government expenditure, produced a political crisis before the Premiers' Conference met. The reductions in pay in the public services had been enacted for one year only, and would expire on June 30. The Labour Conference and its executive had declared against their renewal and threatened with expulsion all Labour members supporting them. On the meeting of Parliament in April the Government was challenged by the Opposition to state its attitude, and the reply that the time was not yet ripe for a statement on the financial policy of the ensuing year was treated as an evasion of the issue. A vote of want of confidence was carried on April 13, and Parliament was dissolved. The acting-Premier (Mr. Tunnecliffe) proclaimed his determination to protect salary and wage earners against further attacks and claimed credit for having imposed on public servants the smallest reduction in Australia. For the future, the Government was prepared to re-enact the reduction of the salaries of judges, Ministers, members of Parliament, and the higher classes of public servants: the position of others it would refer to a classification board. He protested against the "cruel burden" of overseas interest, and declared for immediate and unanimous action by Commonwealth and State Governments to bring about by negotiation a reduction of such interest on the same basis as that already effected in internal interest, the money so

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released to be applied to the provision of additional relief works. Further, provision was to be made for the unemployed by the flotation of an internal loan, by increased taxation of "about 10 per cent." on existing rates, by further protection against eviction or foreclosure of mortgages, and generally by a policy for "stimulating trade and industry by keeping up the living standards of those in employment instead of lowering these standards and thus reducing the purchasing power of the community by further reduction in salaries and wages." The leader of the Opposition (Sir Stanley Argyle) and the Leader of the Country party (Mr. Allan) declared that the Government policy was one of double repudiation, in that, having secured a reduction of interest under a scheme of which the reduction of public service charges was a part, they now proposed to abandon that part of the scheme; and in the second place, because the proposal for "negotiations" with regard to the reduction of overseas interest was a mere cloak for arbitrary action upon it. The election contest was short and vigorous, and one of its features was the large number of young men among the anti-Labour candidates. The poll took place on May 14. The result was a decisive defeat of the Government, three of whose members lost their seats. In the new Parliament there were 33 "United Australia" members, 14 Country members, one Independent, and 17 Labour members, as against 18, 14, 3 and 30 in the old Parliament.

Electors probably paid less regard to the particular items of rival programmes than to the broad considerations which had guided them at the federal elections in December. Commonwealth Ministers appeared on the platform with Opposition candidates, and Mr. Scullin spoke in favour of the State Government. Events at the moment in New South Wales were showing what might happen when Commonwealth and State were pursuing conflicting policies. Mr. Tunnecliffe's attack was directed even more against the Commonwealth

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Government than against the State Opposition ; and though he had Mr. Scullin's support, there was a suspicion that he was closer to Mr. Lang, and dread of a Lang era in Victoria. Even before the defeat of the Ministry, it was known that there were wide differences in the Cabinet. The policy speech of the acting-Premier was followed by two resignations on the ground that it broke faith with the Plan, to which the Premier and his Government had been parties. Then came a series of disclosures. The Premier, Mr. Hogan, who was in England, had cabled to the acting-Premier that the demands of the party executive revealed it as the enemy of State and people, and he insisted that the policy speech must stand by the Premiers' agreement. The cablegram was not laid before the Cabinet, and the policy speech was a plain disregard of its terms. Two more members of the Government declared themselves loyal to the Premier, and remained in the Cabinet at his request "to protect our policy." The election went on, with a Government policy which the head of the Government had roundly denounced. Neither of the Opposition parties put up a candidate against Mr. Hogan who was re-elected to his former seat in the Assembly without opposition. Immediately the result of the election was apparent, the Government resigned, Mr. Hogan communicating the decision by cable and telephone to the Lieutenant-Governor. The leader of the Opposition, Sir Stanley Argyle, had no difficulty in forming a Ministry in which he included the leader and two other members of the Country party, and Mr. J. P. Jones, Minister of Public Works in the late Government, who had dissociated himself from the Labour party as soon as the intention to depart from the Premiers' Plan became manifest.

## Queensland

Unlike the elections in New South Wales and Victoria, the election in Queensland was the ordinary election due

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to effluxion of time. The Nationalist victory of 1929 was due in part to fortuitous circumstances, and a term in opposition, if it did not consolidate the Labour party, at least patched up its differences. The Government's policy of aiming at the balancing of budgets by retrenchment and the abandonment of costly adventures, was the cause of much unpopularity, and for many months before the election the general opinion was that the Moore Ministry would be defeated. In his appeal to the country, Mr. Moore could promise nothing more than a relentless pursuit of a policy which he deemed essential to save its credit and maintain its economic life, and to keep faith with the Premiers' Plan. The measures which would be necessary would be the more drastic as the proceeds of former loans, from which deficits had been provided for, were now exhausted. The policy speech of the Leader of the Opposition, Mr. Forgan Smith, flattered the hopes of the discontented, without incurring the odium of Langism. He would review the Premiers' Plan, taking note of the zeal which the Government had shown in wage reduction, compared with their tender regard for fixed money claims, and he promised relief from the interest burden "where it was too great for industries or individuals to carry successfully." Labour policy would be to promote stabilisation in internal economy. It was necessary to increase the capacity of the people to consume and purchase more. The 44 hour week would be restored, the reductions in wages and benefits would be abandoned, social services would be improved and extended, and funds would be made available to meet requirements for workers' dwellings and homes. The Bureau of Economics established for informing and advising Governments, would be abolished as an irksome imposition upon industry, and a Bureau of Industry, on which trade unions, agriculture and industry generally would be represented, would enable investors in the £2,500,000 loan for reproductive works, which a Labour Government would raise, to feel

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assured that the funds would be used in a proper and effective manner. The relief of taxation was not forgotten, it would result from a policy of reducing unemployment and setting up greater industrial activity. Before so attractive a programme, the austerity of Mr. Moore fared as Mr. Bavin's did in New South Wales in 1930, and the position of parties in the new House is Labour 33, Nationalist 27, Independent 1.

Mr. Forgan Smith's difficulties will begin at once. He cannot borrow except through the Loan Council, and if he could, his prospectus would attract few lenders. Among Government supporters there are some who will require to recognise that promises have served their purpose when they have secured an electoral majority, and others who frankly demand "a reduction of the interest burden to nil." It must be remembered that there is no Legislative Council in Queensland, and nothing, therefore, to withstand the will of the Assembly. Mr. Forgan Smith had enough reputation for moderation for it to have been possible to think of a coalition Ministry when the issue of the election appeared indeterminate. But the definite Labour majority put that out of the question. The result will probably be a repetition of the battles in caucus and cabinet, and the ultimate cleavage in the party with its attendant expulsions that has marked the course of Labour in office in other States and in the Commonwealth.

Australia.

June 29, 1932.

## SOUTH AFRICA

### I. THE SESSION—AND AFTER

THE fourth session of the Union's sixth Parliament closed on much the same note as it had commenced on. It had been called in November to hear the Minister of Finance's ringing affirmation of his gold standard policy, and to pass a Financial Emergency Regulations Act, constituting him, for a period, financial dictator for the maintenance of that policy. In the last days of the session, at the end of May, it extended the period of dictatorship, and set the seal of a party majority on the Report of the Select Committee, which had advised, as everyone knew it would, against any disturbance of the South African pound's "safe anchorage" in gold. In the intervening months much had happened. The grimness of the country's economic plight had been intensified, and the price paid in subsidies to keep the farmers content with the Government's policy had been increased ; there had been endless discussions of currency questions inside Parliament and out ; but the net result had merely been the hardening of party lines of division with regard to an issue which had far better have been kept out of the arena of party strife. A change of currency policy in South Africa will, it would seem at present, only come as the result of a change of Government.

The session which ended on May 27 was singularly barren of legislative achievement. Perhaps it could not well have been otherwise. For about half of it the discussion of the currency problem monopolised attention ; for the rest, the Government was largely preoccupied with the

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economic difficulties of the country and the pacification of disgruntled followers. It could hardly have been expected that it would push on with avoidable legislation that would raise first-class issues, and add to the troubles which were already so potent in murdering sleep. Probably the most important measure that passed into law was the Native Service Contract Bill. That Bill was dealt with in the last number of *THE ROUND TABLE*.\* It brought into relief the divergence between the Northern and Southern viewpoints in native policy, and thereby engendered much heat—in some cases between members of the same party. A Liquor Bill, aiming at increased facilities for sale, especially to natives, was withdrawn in face of the threat of vigorous opposition. The Coinage Bill, that was to replace the pound, the shilling and the penny with distinctive South African coins, was not proceeded with; no doubt its reintroduction will depend in part on what takes place at Ottawa. Among the measures that also passed into law was a crop of private Bills, and the usual series of "control Bills" so typical of our time—mealie control, tobacco control, meat trade control, dairy industry control—all hampering freedom of trade and some making inroads on the pockets of the general taxpayer. For the rest, there was little apart from financial measures. These financial measures, however, attracted more than the usual amount of attention. They imposed heavy additional taxation—the total for the session was about £6 million—and they reduced the emoluments of State servants, including, of course, railway employees. Hence they put a severe strain on ministerialist loyalty, and in a critical division on one of the salary-reduction Bills the Government's majority fell to five. Three years ago a majority of twenty-five could, for most purposes, be counted upon.

As a result of these measures the Government was able to realise its object of a balanced budget—balanced, perhaps one should say, by way of qualification, in

\* *THE ROUND TABLE*, No. 87, June 1932, p. 669.

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anticipation, for present trade and revenue tendencies do not indicate that it is likely to be balanced in fact. Economic conditions in the Union have in recent months gone disturbingly from bad to worse. South Africa is now feeling the full force of the economic storm. It has chosen to meet it without seeking the relief that the abandonment of the gold standard might provide, temporarily at least, and, as a consequence, it is making heavy weather. Confidence has ebbed, initiative has dried up, the towns, no less than the countryside, are suffering most severely. While in 1929 importation was at the rate of £80 million per annum, in recent months the rate has been round about £25 million, an alarming decline, even when allowance is made for the fall in the gold prices of commodities. The customs revenue in the new financial year is so far about 25 per cent. below the estimate made only three months ago. There is every indication of the year ending once again with a deficit of two million pounds or more on general account, coupled with a railway deficit of from three-and-a-half to four millions. Apart from a world recovery, it is difficult to see how these deficits are going to be liquidated. The financial and economic prospect is indeed at present one of unrelieved gloom.

It is not to be wondered at, therefore, that Ottawa has come to be an almost magic word. Since the session ended, Mr. Havenga, our Minister of Finance, and two of his colleagues have gone to the Canadian capital. There are many in South Africa who look to the Conference for tariff preferences that will create new markets and enhanced prices for South African products. Others again cling to the hope that it will provide the occasion for a change in South Africa's present currency policy; one of the results of the discussions will, they hope and pray, be an Empire currency with the devaluation of the South African pound as a corollary.

Mr. Havenga is fully alive to the potentialities of the Conference, and may be counted upon to pull his very

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considerable weight in the attempt to take advantage of the present opportunity, knowing full well that, however doggedly some of his followers may mutter incantations to avert any threat to South Africa's "economic independence," they will, when it comes to the point, no doubt receive willingly enough such gifts as the Greeks may bring. His attitude on the tariff question is already well known. He has made it abundantly clear in Parliament, and recently in London. He hopes to encourage trade between the members of the Commonwealth, but not at the price of cutting off trade with other friendly portions of the world. His hope is for freer trade as such, within the Commonwealth first, and within a steadily widening area of the world next or, better still, at the same time. There will be few outside the ranks of the Empire Crusaders on your side of the water to quarrel with that ambition.

On the currency issue he is less comforting to the advocates of devaluation in Parliament and the country, for he has declared roundly that he will stand or fall by the 113-grain gold pound, and he is a man of his word. In London he has since justified that policy as a continuation of the consistent policy of Great Britain herself until circumstances became too much even for her. South Africa, he asserts, as the world's greatest gold producer, must in her own interests stand by gold, all the more so as her trade position enables her to maintain gold payments. In the terms of the Macmillan Report he is only prepared to recognise depreciation when depreciation has become a fact, and that day is not yet in South Africa. But closer reading of his speech shows that he is not impervious to argument. For any single country, or small group of countries, to attempt to regain prosperity by manipulating the currency would be disastrous, but if debtor nations as a body favour devaluation and are prepared to carry it out by really international action—why, that is another story.

There is one side of the currency question which has hardly been discussed in these parts, perhaps hardly

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realised. Ottawa may constitute a grave danger to South Africa. Many influential men overseas are advocating a policy of bimetallism. If that should be adopted at all widely, it would have most disconcerting repercussions on the gold industry, which, at the present time, stands alone between South Africa and disaster. However, we shall see what we shall see. Meanwhile it is a little unfortunate that hopes with regard to Ottawa have been pitched so high. The Conference cannot in any case achieve an immediate revolution in existing conditions; it can at best only lay the foundations of a new system. But possibly its indirect results may be greater than its direct results. Agreement at Ottawa should be a potent factor in stimulating that confidence of which we are all to-day so sorely in need.

If South Africa's economic *malaise* accounts for the extravagant anticipations cherished with regard to Ottawa, it also supplies the background for the consideration of important political developments which have been taking place in Natal. In the last number of *THE ROUND TABLE*\* an account was given of the emergence of the devolution or secession movement in that part of the Union, and of some of the factors that have led up to it. Undoubtedly it is an expression of the perturbation felt by Natal, conscious as it is of its distinctively British tradition, at what it regards as the anti-British policy and traditions of the existing Government. Yet it is the present economic maladjustment, from which Natal is certainly not suffering less than the rest of the Union, that prompts the eager desire to see or hear some new thing, and has thus provided the atmosphere that breeds disaffection. The devolutionists have secured an unexpectedly large backing of public opinion. They have not always been very precise as to what they want; at times the cry has been for the separation of Natal from the rest of the Union, at times for a change of the present unitary constitution to a federal

\* *THE ROUND TABLE*, No. 87, June 1932, pp. 616 *et seq.*

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basis, at times for separation as a first step towards federation. Devolutionists have also been by no means lucid in explaining what they mean by federation, nor too diligent in examining its economic consequences for Natal. But the important thing is that they have held out the ideal of a substantial change—and it is a change that Natal wants, a change which will be the more acceptable if accompanied by the prospect of freedom from the “Dutch domination” of to-day. And so the movement has captured the public imagination, and spread like a veld fire through the land.

It was this situation that disclosed itself to the Natal members of Parliament (all but one of them belonging to the South African party) when they returned home from distant Cape Town at the end of the parliamentary session. They decided that the movement had become too strong for them to crush; they decided that they had to compromise. And so they came together and issued a statement in which they pledged themselves to the ideal of federation, undertaking to place Natal and federation for Natal before party allegiance, and to form a Natal federal group within the South African party, with its own caucus and its own leader. In return for this pledge they understood, so it would appear, that the devolutionists would definitely abandon all propaganda for separation.

But the pursuit of compromise does not always lead to tranquillity. Within a fortnight of taking their pledge the Natal members found themselves repudiated from two sides. The devolutionists indicated that they were not abandoning the separation ideal, and General Smuts, on behalf of the South African party, repudiated federation, and declared that he could not acquiesce in the *imperium in imperio* implied by the creation of a separate federal group within his party. The result of it all is the emergence of a definite cleavage in the South African party ranks in Natal. Most of the Natal members are taking their stand by General Smuts, but some at least will adhere to their federalist pledge, at the cost, if need be, of the severance

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of their present party ties. It would seem that on this issue Natal is likely to be acutely divided.

The move towards federalism in Natal is significant in relation to the general temper and present attitude of the people of that province—it is significant also in relation to the wider constitutional question known in South Africa as the provincial problem. When the four South African colonies combined to form a Union twenty-two years ago, the central constitutional question of a federal as against a unitary system was decided against federation, but as a concession to the federalists the Provincial Councils were established as definitely subordinate law-making bodies. The compromise has never taken root, and there are few who would envisage the permanence of the system in its present form. At some time or another South Africa will once again have to make the choice between a federal and an unqualified unitary system. In an earlier number of *THE ROUND TABLE*\* the events were recounted which led up to the Government's declaration last year in favour of the latter policy, i.e., for the abolition of the provincial system. The Natal agitation is in large measure a reaction against that declaration. It is the alternative policy, federalism, that Natal so earnestly desires.

But apart from Natal, the Government has been raising heavy weather with its abolition policy. Among its supporters, who are mainly country-dwellers, and as such well content with the provincial system, which tends to lay the burden of local government mainly on the shoulders of the town-dwellers, little enthusiasm has been evoked; in the Transvaal and the Free State there has indeed been active opposition. As a result, it appeared for a time as if the new policy would have to be abandoned, or at least put into cold storage. Then circumstances came to the Government's aid. The Free State Provincial Council found itself crushed by an overwhelming deficit. In desperation it passed a resolution asking the central Govern-

\* *THE ROUND TABLE*, No. 85, December 1931, pp. 195 *et seq.*

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ment to take over responsibility for its administration. Apparently this was conceived as a means of bringing pressure to bear on the Government to come to its aid with a special subsidy. If that were so, the scheme failed. The bluff was called. The Government announced that it would accede to the request as framed, and has done so literally by virtually taking over the Free State. It has further made use of the opening thus offered to appoint a commission to devise an alternative system of local government to be applied in the Free State, or in any other province which may similarly be taken over. It would seem indeed to be part of the Government's policy to put a little gentle pressure on the other provinces in the form of a restriction of their subsidies, so that they may follow the Free State's example. It is clear, however, that these provinces are not going to surrender without a fight; the Nationalist majority in the Transvaal Provincial Council has voiced its defiance in no measured terms; abolition may in fact still be a very long way off. Meantime, however, the Commission has been constituted—not without difficulty, it is true, since no South African party man, nor anyone from Natal, was willing to act on it, and at least one prominent Nationalist similarly declined—but constituted it has been, and no doubt it will serve the purpose of conveying some aspects of the problem into the political background, at least for a time.

It remains to say a word about party prospects. During the session the Government maintained its position under heavy assaults, despite the fact that two of its supporters—one a Nationalist and one a Labourite—crossed the floor. On the feeling in the country in this respect some light has been shed by an important by-election recently held at Colesberg. Colesberg is a far-flung constituency covering several Karroo districts in the Cape Province. Up till the 1929 election it had been a South African party seat. In that year the Nationalists won it by a majority representing 10 per cent. of the total number of votes polled.

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On a very much larger poll, which included the newly-enfranchised European women, they have now retained it by a 3½ per cent. majority. The reduction of the majority is of some importance from the South African party point of view, but the Nationalists have to their credit a far greater achievement in having held the seat at all. For the electorate consists almost entirely of sheep-farmers and railwaymen and their dependants. The sheep-farmers might have been expected to avail themselves of the opportunity to protest against the Government's gold standard policy, the railwaymen against the cuts in their emoluments. That the turnover of votes was in the circumstances relatively so small is an indication of the strength of nationalism in South Africa. That strength derives essentially from its sentimental appeal. The South African party sought to fight the by-election on economic issues. The Nationalists, apart from their efforts to counter that attack, and to arouse the never sleeping fear of non-European competition, relied on the stimulation among the Afrikaans-speaking voters, who overwhelmingly preponderate in the constituency, of a sense of their distinctiveness. General Hertzog addressed his eve-of-the-poll appeal to "Nationalists, Afrikaners" (and to most people in South Africa "Afrikaner" means an Afrikaans-speaking South African). Taking the Natal movement above referred to as his text, he urged them to rally in defence against the attack on everything that is Afrikaans. Eve-of-the-poll appeals may not turn votes, but they are often indicative of the prevailing mental attitude of those to whom they are addressed. Nationalism is securely founded in the memories of South Africa's unhappy past ; it is maintained by a sentiment strong enough for the most part to repel the bread-and-butter arguments of economic distress. The South African party still has many weary marches to complete if it is to see the walls of Jericho come tumbling down at the general election which is due to take place two years hence. That realisation would seem to be the lesson of Colesberg.

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### II. THE NATIVE ECONOMIC COMMISSION, 1930-1932

**S**HORTLY before the Colesberg election was lost and won by appeals to Afrikander nationalism at its crudest, and the fear of native competition in the railway service and elsewhere, a flood of light was turned upon the dark reservoir from which that competition emanates. Following on sporadic troubles in the latter part of 1929, all of which could be traced back to economic causes, Government appointed a Native Economic Commission to investigate, first and foremost, the social and economic condition of the Bantu in the larger towns. The long-awaited Report of the Commission appeared in May.\*

The Report must be welcomed—but with some misgivings. It seems inadequate to the importance of the questions the Commission was asked to report upon. Unfortunately there are grounds for fearing that the compilation of the Report was too hurriedly performed. It has been generally hailed as a “fact-finding” commission, more perhaps because it has refrained from urging the adoption of any thorough native policy than because it has marshalled hitherto unknown facts in any quantity for the attention of the Union Government and its citizens. Too many of the “facts” have not been brought out; they lie buried in the evidence which, unfortunately, is not to be published, but is to be accessible only in the Union archives at Pretoria. Non-publication is, no doubt, not the Commission’s fault. But it should have called for greater care on the part of the Commission to ensure that the gist of the important evidence was made available in the Report itself. It is really only in the addendum, by Mr. F. A. W. Lucas, that an adequate idea is given of the mass of valuable material which must be available in the evidence submitted from various sources. Again, it is only in this addendum, which is in many respects the most valuable part of the published Report, that page

\* U.G. 22, 1932.

## Native Economic Commission, 1930-1932

references to the thousands of type-written pages of evidence are generally given.

This omission is very unfortunate, as many may wish to check and obtain further information on points which the Commission has raised. The "fact-finding" Commission has gone about its work too light-heartedly. For instance, it evidently thinks that the purchase of land by natives outside areas scheduled under the 1913 Land Act is worthy of mention—but it is not concerned to say how great (or how small!) these purchases have been. Again we read (in paragraph 60) that, "a case was mentioned to your Commission of a man, who had learned better methods from the Europeans, and produced a larger crop than his neighbours, who was killed, in order that the soul of husbandry which had settled on him could be distributed to the benefit of all, by the witch-doctor." By whom was this statement made, and how long ago was the incident referred to supposed to have taken place? The tale is a well-known "old-stager." If there is a modern authenticated instance, it is important that details should be made available. If there is not, it is equally important that the source of the statement should be given, in order that anthropologists may examine and dismiss it. Anthropologists are fully aware of the obstacles witchcraft places in the way of economic progress through natives relying on it rather than on improved methods to increase their crops, and through the discouragement to acquisition caused by fear that a jealous chief may accuse of witchcraft those whose wealth becomes obnoxious to him. But they are unwilling to give much credence to this other danger without more definite evidence.

The fashionable "agreement to differ" has also been widely adopted by the Commission. The Report is signed by all members, but it contains in its main text very numerous reservations. That is perhaps a useful method, for it does not break up the continuity of the argument. But it appears sometimes that disagreement is more funda-

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mental than is suggested when the main Report merely notes dissent and then resumes the even tenor of its way. One rather ludicrous example occurs in paragraphs 200ff. when "your Commission *unhesitatingly affirms*" what Dr. Roberts, a member of the standing Native Affairs Commission, immediately "finds himself unable to accept." Such statements must detract from the authority of the Commission's recommendations.

Nevertheless the report is worthy of grave attention. It is especially noteworthy that a commission, which is not predominantly negrophilist in the character of its personnel, should have reported so unanimously on the urgency of the native economic problems. The Report is all the more alarming for not being alarmist. It becomes clear in more than one place that the most imminent native problem is that of mass-starvation.

The Commission's terms of reference were to report upon :—

1. The economic and social conditions of natives, especially in the larger towns of the Union.
2. The application to natives in urban areas of the existing laws relating to the regulation of wages and conditions of employment and for dealing with industrial disputes, and/or the desirability of any modification of these laws or of providing other machinery for such purposes.
3. The economic and social effect upon the European and coloured population of the Union of the residence of natives in urban areas and the measures, if any, to be adopted to deal with surplus natives in, and to prevent the increasing migration of natives to, such areas.
4. What proportion of the public revenue is contributed by the native population directly and indirectly. What proportion of the public expenditure may be regarded as necessitated by the presence of, and reasonably chargeable to, the native population.

The Commission has very reasonably considered the first and third terms together, and just as reasonably reported that the urban native problem is not primarily an urban problem, but that "in the *economic* development of the reserves must inevitably be sought the main solution of the native economic problem."

## Native Economic Commission, 1930-1932

It did not require a commission to point out that the South African native is poor. It may not, however, have been previously recognised that large numbers of natives are steadily growing poorer. Yet this is everywhere reported: in the Ciskei, the Transkei, in Bechuanaland, in the Transvaal. The diet of the South African native is becoming not more, but less, varied; mealies are no longer supplemented to the same extent by milk, and the consumption of meat is growing even more rare. As a result physical deterioration is marked:

You will see malnutrition stamped on the race.\* . . . We have now throughout the reserves a state of affairs in which, with few exceptions, the carrying capacity of the soil for both human beings and animals is definitely on the downgrade; a state of affairs which, unless soon remedied, will within one or at the outside two decades create in the Union an appalling problem of native poverty.†

Memoranda submitted by the Director of Native Agriculture and by the late Mr. S. G. Butler (*Annexure 14*) show how inadequate is the surplus produce of the natives in a number of reserves, a surplus which, allowing only for a very moderate diet, must cover tax payments and the purchase of clothes and other necessities. It may be remarked that the surplus is more likely to have been over than under-estimated, while Mr. Thornton's estimates of the total produce are almost certainly too large.

The net result of these conditions is that there must be a considerable efflux of natives from the reserves to find wage-paid work, either on farms or in the towns. This relieves the pressure on the reserves, but it is doubtful whether the net effect constitutes an item on the credit side of the balance. It has been pointed out that:

The absence of males from their homes during the greater part of the year is invariably reflected in the cultural operations of the land and the resultant low yields. Even while the responsible male times his visits home to coincide with the ploughing and seeding season, agriculture suffers. It allows of no preparatory cultivation, nor does it enable him to take advantage of favourable rainfalls.

\* See especially *Addendum*, 60-70.

† *Report*, 69.

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It necessitates leaving to the women and to juniors the major part of the work. There can be no organised system of working. The standard of agriculture, therefore, is low and there can be no development.

This, of course, makes it the more imperative for the migrant to remain longer in the town and earn more there. But the large scale movement of this necessarily unskilled (because casual and temporary) labour keeps down the level of native wages. Thus a vicious circle is set up connecting the two main aspects of the native economic problem, poverty in the territories and inadequate wages in the towns and in rural European employment, which it seems wellnigh impossible to break.

To what are the poverty-stricken conditions of the native territories mainly due? The Commission's answer is "over-stocking," which has already converted a large part of the Ciskei into a desert and is well on its way to make desert conditions general. The main avenue for attacking the problem, it holds, is by teaching the native to regard his cattle from an economic and not from a religious aspect. He must also be taught better agricultural methods in general, and must be provided with better facilities for disposing of his stock, and for costly cattle fencing. This is true—although a native society divorced from the cattle cult, with chiefs unable for lack of land to perform their primary economic function of providing land for their tribesmen, is not likely to be led easily to better things by educating the chiefs and then calling upon them to exert their customary tribal influence on their people. That is the suggestion in one part of the Report. It would seem to be unduly optimistic.

But the problem is not even as simple as this. The late Mr. Butler reported (see *Addendum*, 53) that though the Transkei was over-stocked, there was an insufficient number of oxen available for agricultural purposes. Over-stocking is not merely a function of the traditional importance of cattle in native society, it is a function also of the type of

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cattle owned and of a total insufficiency of land in the reserves for the needs of the native population in that state of development in which it is at present, and is likely to be for a long time to come. This seems to be recognised in the Report.

The provision of more land is also essential. The present yield of native agriculture and stockfarming is so low that the native areas will, with proper farming, be able to support a much bigger population than they actually do at present. But the introduction of better farming methods will be hampered in many parts by the congestion now existing, and it will be necessary to relieve the congestion.

It is, perhaps, something gained that a commission, reporting even as late as 1932, should note the economic as well as the moral necessity of fulfilling the promise of providing more land for native reserves made in connection with the Natives Land Act of 1913, which so drastically limited the rights of most natives to acquire land outside those reserves.

Besides the reserve natives, there are some 2,000,000 others who live on European-owned farms. Forbidden, by that Act of 1913, except in the Cape, to hire land outside scheduled native areas on any other basis than labour service, they mostly form a class of labour tenants, though in some districts hired labourers are more numerous. The Native Economic Commission has taken evidence as to the situation of these tenants. The most striking variations are reported. There are instances when "the native was required to work for a period of nine months during the year, as and when required by the farmer. In return for his services he was permitted to cultivate a strip of land . . . under 2½ acres . . ." On the other hand, there are instances of fairly tolerable conditions. The Commission inclines to the opinion that labour tenancy is uneconomical both for the farmer and his tenant, since the tenant is able to reap but a small return from land which would give a much greater return if cultivated by the farmer himself with his more advanced European methods.

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This, however, presumes that the farmer would so cultivate his land if he was not forced to allow his labourer to use it. That is somewhat of an assumption. Dr. Neveling and Dr. Neethling have stated that, "in most cases the native's land should not be considered as a reduction in the area of the cultivated land of the farmer, but as an increase in the cultivated area of the farm as a whole." There is, however, no doubt that progressive agriculture requires the remuneration of the native labourer to be rather on the cash basis, and the Commission strongly recommends, in the first place, a strict insistence on written contracts, and in the second place, a gradual attempt to abolish the labour contract system. It is an ironical commentary that this Report should have been presented at a time when the legislature was engaged in passing the Native Service Contract Act, which is intended to stereotype a form of labour tenure in which, in the absence of a written agreement otherwise, the duration of the contract is presumed, and its extension is also presumed unless notice is given to the contrary; in which the contract is automatically renewed with the new owner if the farm be sold; in which, in the absence of a special agreement, the contract is regarded as broken if the tenant is absent for three months, or if another native from the same kraal breaks his contract, all members of that kraal are laid open to eviction. And the sanctions for these breaches of civil contract are criminal.

The remaining sections of the Native Economic Commission's Report are much less informative. Comparatively little is told of the economic and social condition of the urban native. In respect of this, its first term of reference, it falls far short of the recent independent report of Professor Leubuscher on *Der Südafrikanische Eingeborene als Industriearbeiter und Stadtbewohner.*\* The Commission reports that a development of the reserves which will prevent large influxes of temporary labourers into the towns

\* Jena, 1931.

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will enable the urbanised natives to become skilled and thus earn higher wages. Subject to dissent by Mr. Lucas and Dr. Roberts, it also approves of the principle of the industrial colour bar, though that might be presumed to hamper the endeavours of the urban native in a way similar to the presence of numbers of reserve natives. On the question of the extension of wage determinations to natives, the majority Report is impressed by the difficulties in the way, the minute of dissent by Mr. Anderson, Mr. Lucas and Dr. Roberts, by the desirability of increasing native earnings in all possible ways. The latter very pertinently point out that "a country which believes in, and makes use of, a 'scientific tariff' should not be afraid of the use of scientific wage regulation." It may be suggested that both attempts at scientific regulation may be undesirable; for the rest, the Commission was not asked to pronounce any opinion on the Union's tariff policy.

The last section of the Report, on the face of it, would seem to show that taxation does not press unfairly on the native, for he contributes some £3,322,917 to the Union and provincial revenue, and is responsible for some £4,184,700 of public expenditure. But the statistical allocation on which this finding is based, seems to involve a very large amount of guesswork, and in general no opportunity is given for checking its working. Paragraph 1099, for instance, says barely, "*Licences*—the amount allocated to natives has been arrived at after a detailed examination of the items." In discussing the proportion of the expenditure reasonably chargeable to natives much use has been made of the "National Income Ratio." The share of the national income enjoyed by natives has been calculated at one-eighth, and the presumption has been made that, unless there are special invalidating circumstances, one-eighth of the several items of public expenditure should be debited to the natives. Assuming that the ratio is correct, it might be claimed that it is correct to employ this ratio

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all along the line. It can hardly be applied to parliamentary expenditure. Natives are debarred from sitting—and in most cases from voting—therefore, they may be presumed not to receive the benefits of equal representation with the Europeans, and certainly no part of the expenditure is returned to them in the form of parliamentary salaries.

The same holds good of other administrative expenditure, especially of that utilised, in the form of subsidies to wages, in attempting to promote a “civilised labour policy” at the expense of native employment. One magistrate expressed the opinion “that if the Masters and Servants Act were not enforced in that district, one quarter of the police force could be dispensed with there.” What proportion of the police vote, necessitated by laws which every native believes are directly to his disadvantage, can be reasonably charged against those natives? (It should be said that, as a matter of fact, the Commission’s estimate on the police vote is probably not excessive.) The task of apportioning the natives’ fair share of taxation in proportion to the benefits they receive from Government is, if not impossible, one which requires far more acute and sustained attention than has, from all appearances, been given by this Commission. In any case, it is not the practice of modern States to tax the poorer sections of the community so highly as to ensure that they receive from Government only those strict benefits which they have themselves paid for. Nobody has yet thought of enquiring whether the South African farmer is under or over-taxed in proportion to all that Government does on his behalf.

But let that pass. For all its shortcomings, the Report is a valuable, though most disquieting, revelation of the inadequate black foundations on which white society rests. If it leads, in however tentative a fashion, to the strengthening of those foundations, the Commissioners will have earned the gratitude of both blacks and whites.

South Africa. July 1932.

## NEW ZEALAND

### I. THE GOVERNMENT'S PLAN

ON April 27, during the special session, Mr. Downie Stewart, the Minister of Finance, introduced his financial statement. Owing to the way in which the main items of revenue have continued to shrink and expenditure, *e.g.*, the debt services and the cost of exchange, has increased, there will be a gap between revenue and expenditure which is estimated at £8,300,000. The gap is to be bridged in the following manner.

	£		£
Reduction in salaries, wages and pensions	1,100,000	the discharged soldiers	settlers
Abolition of subsidy on unemployment funds	1,450,000	mortgages (in which £10,500,000 of reserves are invested)	
Assistance from highways fund	500,000	by arrangement with the Bank of New Zealand, the National Bank of New Zealand taking a proportion	.. 2,200,000
Subsidies to local bodies to remain a charge on highways account	125,000	Leaving what Mr. Stewart described as "a manageable deficit for 1931-1932" of ..	.. 2,000,000
Reductions in other items	325,000		
Hoover moratorium (if extended)	600,000		
From hypothecation for £2,500,000 of			
		Total ..	£8,300,000

The hypothecation, Mr. Stewart claimed, would afford the community a breathing space from further

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taxation, for it is clear that the remaining taxable capacity of the Dominion is limited. He pointed out that, in the three years ended March 31, economies and adjustments had been effected to the amount of £5,940,000 per annum, and that of the £2,976,262 savings recommended by the Royal Commission, £2,286,390 had either been effected or approved by the Government. "In addition," said the Minister, "relief to the Consolidated Fund will accrue from the following items":—

	£
Abolition of subsidy on unemployment funds .. ..	1,450,000
Relief to hospital subsidies from unemployment funds ..	200,000
Hoover moratorium (if extended) .. ..	600,000
Further reductions by railways .. .. ..	100,000
	<hr/>
	2,350,000
Add savings in accordance with Commission's recommendations .. .. .. ..	2,040,000
	<hr/>

Total savings and adjustments at present in sight for 1932-33 .. .. .. .. £4,390,000

The grand total of the relief to the Consolidated Fund over the period under review is, he pointed out, £10,330,000, of which approximately £2,500,000 has been obtained by various adjustments and the balance of £7,830,000 from economies. These figures indicate the strenuous efforts made to cope with the position.

These savings, however, do not satisfy the Chambers of Commerce. The Canterbury Chamber, in its May Bulletin, and the Associated Chambers of Commerce in a letter to the Prime Minister, published on April 19, called for far more drastic retrenchment in all departments, on the same scale as those which were being effected in commercial and industrial organisations. Unremunerative services must, they insisted, either be made to pay or abolished, and the elimination was suggested of any trading by government or local bodies which competed with that of private citizens and taxpayers. The Government has not accepted the recommendation of the National Expenditure Commission that the New Zealand division of the Royal Navy should go

## The Government's Plan

back to Admiralty control and that the annual contribution to the Singapore Base should be further reduced. It does not wish to see the work of construction there delayed.

Early in April the Government floated a loan of £5 million in London, but the response was disappointing. £4 million was for funding the Treasury bills that mature in June, the rest for financing the much-reduced programme of public works.

As regards the exchange problem, on April 29 a deputation representing the Meat Export Board, the Dairy Produce Export Control Board and other mercantile interests, waited upon the Prime Minister and the Minister of Finance. The primary producers, they said, felt that they were being robbed of the advantage of a high exchange for the benefit of another section of the community, and they asked that the exchange should be allowed to operate freely. Mr. Downie Stewart told the delegation that on the day of the general election the New Zealand Government had received a cable saying that unless the Government compelled the banks to remit to London £1,000,000 a month for the next twelve months, the position in London would become unmanageable. To meet this difficulty, it was necessary to constitute the exchange pool, as the banks had informed the Government that they could find the money needed in London only if they had control of the exchange. Had the suggestion for a high exchange been adopted, the Consolidated Fund would have had to find another £3,500,000 and the local bodies, which had large commitments in London, would have been called upon to pay thousands of pounds in exchange. By the end of June New Zealand's internal obligations would be substantially met, and he added that if the regulations of the pool, which he wished to abolish as soon as possible, were observed, it could be lifted by the end of that month and there would be no interference with regard to next season's exports. On June 14 the Prime Minister stated that the exchange pool would be done away with at the end of the

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month, and that there would be no interference by the Government with the exchange rates, that that matter could be left to the banks.

The Government published their statement of policy on May 7. It took the form of a full page appeal for the co-operation of the public on patriotic grounds. "The prosperity of New Zealand depends in the main," they pointed out, "on the price at which its primary produce sells in the overseas market." In 1931 our total exports were only £35,153,028 as compared with £56,188,481 in 1928, and this drop of over £21 million had occurred in spite of a substantial increase in production. To meet this situation, however, still greater production was needed. "The problem of the producer in the past has," the statement continued, "been that his costs of production have remained at a high level, whereas his income from his farm products has sadly diminished."

The Government's aim is to bring down the costs of production and reduce rent and interest charges, to remove difficulties resulting from previous legislation, to stimulate and increase productive industry, enabling it to absorb more and more of our unemployed. It is endeavouring to develop farming lands and to divert unemployed labour to them from the cities. The Unemployment Fund has enabled over 20,000 people to be given productive work in the country. The Government is also considering a scheme for subdividing large areas into small lots of from 5 to 40 acres on a community basis. The settlers will be assisted to build their homes and to get through the early stages. This policy was embodied in four main measures, the Industrial Conciliation and Arbitration Amendment Act, the Mortgagors and Tenants Relief Amendment Act, the National Expenditure Adjustment Act and the Unemployment Amendment Act. This legislation occupied the attention of the House for the greater part of the eleven weeks' special session, and the reaction to it is the main feature of the history of the quarter under review.

## The Government's Plan

### *Compulsory Conciliation and Voluntary Arbitration*

After a warm discussion Clause 2 of the Industrial Conciliation and Arbitration Amendment Bill,\* which gave the Government power by Order in Council to exempt either wholly or conditionally, all or any particular class of the persons engaged in any industry from the operation of the system, was withdrawn. On the main features of the Bill, however, the Government was adamant. Eventually it became law with two important amendments, one giving unions the right, in the case of female workers, to apply to the Arbitration Court for an order fixing the minimum rate of wages, the other clarifying the section relating to piece work. There will, however, no longer be automatic recourse to that Court when the parties cannot agree, as there has been in the past. They must now in the first instance go before a conciliation council. If they settle their dispute there, the settlement will operate as an industrial agreement subject to any of the parties affected having the right to apply to the Court for total or partial exemption. Failing settlement, unless there is practical unanimity (*i.e.*, generally speaking a three-fourths or five-sixths majority of the assessors according to the number engaged) in favour of reference to the Court, existing awards or industrial agreements binding on the parties to the dispute are deemed to be cancelled.

Any industrial union or association of employers bound by an award or an industrial agreement in force on April 27, the date of the passing of the Act, may apply for a new award or agreement if the old one has been in force for not less than six months, and has an unexpired term of not less than three months. If no new award or industrial agreement is made, the existing award or agreement will be cancelled. In future, awards or agreements may

\* THE ROUND TABLE, No. 87, June 1932, p. 688.

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contain provision for the payment of workers at piece rates and also by results. Even where there is no specific provision, the employer may still agree with the worker to have piece work payment, provided that it does not result in the worker receiving less than the minimum wage provided for in the award or agreement. The character of the debate was so fiery that the closure was put fifteen times at various stages and there were over 66 divisions altogether, two Labour members being suspended. The Government majorities varied from 11 to 20, and the third reading was carried by only 15, some of the Coalition members voting with the Labour party against the Bill.

It was urged by Labour that the complete abandonment of the principle of compulsory arbitration, which had worked well for forty years, would certainly lead to industrial disorder ; that it amounted to a proclamation by Parliament that in future the workers would have to rely upon unconstitutional methods to redress their grievances, that they would be dragged down to the level of coolies ; that insidious attacks would be made upon wage rates and working conditions throughout New Zealand, and that the worst form of sweating would be introduced under piece work contracts.

The reverse side of the shield was presented to the House of Representatives by the Prime Minister, and by Mr. Masters, the Minister of Education, in the Legislative Council. If, said these Ministers, there is to be greater confidence in industry, more capital invested in it and encouragement to employers to maintain larger staffs and to develop industries, there must be fewer irksome conditions and less harassing interference by union officials ; costs must be substantially reduced. The Minister of Education gave some striking instances of how industries had been strangled by the high cost of labour and maintained that awards, based as hitherto on the actual cost of living and not on the ability of the industry to pay, were based on altogether wrong principles.

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### *Relief to Mortgagors and Tenants*

The Mortgagors and Tenants Relief Act extended the relief given to mortgagors under the Mortgagors Relief Act, 1931.\* It also authorised the Court to grant relief to lessees by way of reduction or remission of rent, the lessor, pending its decision, being prevented from selling the property or exercising the right of re-entry. The relief that the Court can give in respect of mortgages of farming lands was extended to all mortgages. In the case of table mortgages, the Court was empowered to extend the term, and to postpone the date of payment of principal and interest. As originally introduced the Bill enabled the Court in all cases to cancel the mortgagor's liability under his personal covenant, but this power was restricted by an amendment in the Legislative Council to the postponement of the mortgagee's right to sue the mortgagor under the latter's personal covenant, and the Court can impose special conditions on the mortgagor as a condition of postponing the exercise of the mortgagee's rights. Provision was also made for the automatic reference by the Court of all applications for relief to an adjustment commission for investigation unless the parties agree to accept the decision of the Court without such reference.

The significance of this new measure is obvious. The *New Zealand Herald* (Auckland), pointed out on March 4

that once the Legislature placed an interfering hand on private contract it would not be able to stop, but must yield to the pressure ever urging it to go further. The pointed question in the House, whether any power was given to reduce the amount of the principal secured by a mortgage, indicates how further lengths are anticipated. But it may reasonably be asked whether the Government sees the consequences of what it is doing. Does it realise the end of a process which can bring the whole of the securities held by the State Advances Department—Involving millions of borrowed capital—under review? Has it considered the effect on real property as

\* *THE ROUND TABLE*, No. 84, September 1931, p. 922.

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security for advances? These are the two questions the legislation prompts, and no satisfactory answer is even hinted by official pronouncements on the subject.

The general trend of the discussion, however, was to the effect that the Bill did not go far enough, and as it was introduced before the National Expenditure Adjustment Bill, which effected a statutory reduction in interest and rents, a great deal of time was spent in advocating such general relief. The reason for the latter measure was that the Government was entering an uncharted sea, and did not—to use the Prime Minister's metaphor—know where the rocks were. An even stronger reason was that the Cabinet was divided on the soundness of the policy of statutory reduction. In his financial statement on April 7 Mr. Downie Stewart had expressed the view that voluntary private adjustments, with the help of the Mortgagors Relief Act, where necessary, would give more equitable results in the great variety of cases than any flat-rate reduction by legislation could do, but he had subordinated his personal view to that of his colleagues, and to what appeared to be the general view.

The objects of the National Expenditure Adjustment Act were five in number:—

- (a) The reduction of salaries, wages, pensions and allowances.
- (b) The reduction of interest, rent and other fixed charges.
- (c) The imposition of a special stamp duty on receipts of income from securities issued by the Government or by local or public authorities.
- (d) The determination of the rates of interest that may be paid on deposits by any savings bank, building society or investment society.
- (e) The determination of the conditions on which trading companies may accept money on deposit.

The salary "cuts" are to operate as from April 1. There is to be a further cut—this time graduated—in the salaries of the public service, ranging from 5 per cent. to 12½ per cent. The salaries of Ministers of the Crown are reduced by 15 per cent., that of the Speaker of the House of Representatives by 12½ per cent., and those of the

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Speaker of the Legislative Council, the Chairman of Committees of both Houses and ordinary members of Parliament by 10 per cent. Subsidies to local authorities, hospital boards, fire boards and the Rotorua Borough Council are reduced by 10 per cent. Besides, substantial reductions are made in old age pensions, and those of widows, miners, soldiers and their dependants and also in family allowances.

Considerable opposition was shown to the reduction of members' salaries by Labour members, and to the reduction of pensions both by Labour and by several Coalition members. An amendment to defeat the reduction in old age pensions was defeated by 36 to 34 while the cut in soldiers' pensions was retained by 38 to 34.

Part III of the Act makes a compulsory reduction of 20 per cent. in interest on all mortgages (including agreements for sale and purchase of land and company debentures but not mortgages on demand), and in all rents, accruing—in each case—on or after April 1, 1932, and before April 1, 1935. This reduction applies only to contracts in force at the passing of the Act (May 10). Provision is made for the standard by which the reduction is to be arrived at, and both penal and net rates are to be reduced accordingly. The net rate is not to be reduced below 6½ per cent. in the case of mortgages of chattels, nor below 5 per cent. in that of other mortgages. No ground rent will be reduced below 5 per cent. per annum of the unimproved value appearing in the district valuation roll on April 1, 1932. Similar provisions are applied to dividends on the cumulative preference shares of companies. The reduction applies whatever the relative financial positions of mortgagee and mortgagor or landlord and tenant, except that application may be made to any competent Court for relief on any of the following grounds:—

- (a) That the rate of interest or of rent under the contract is fair, taking into consideration the nature of the security or the premises.
- (b) That adequate concessions have already been granted

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to the mortgagor or tenant. (c) That the reduction would be a case of hardship to the person entitled to receive such interest or rent, as the case may be.

As under the Mortgagors and Tenants Relief Act, every application for relief is automatically referred to an adjustment commission unless the parties agree to accept the decision of the Court.

The Act also imposed a stamp duty of 10 per cent. upon debentures (including inscribed stock issued by the Government), empowered the Governor-General by Order in Council to fix the maximum rates of interest payable on deposits at savings banks, building and investment societies, and on deposits held by trading companies. In the case of debentures issued by a local authority the net amount received by way of stamp duty, less 5 per cent. for administrative expenses, is to be paid to the local authority, if it is a rating authority, to be applied in reduction of rates. In his financial statement Mr. Downie Stewart said that in order to place the holders of government bonds, who had to accept a 10 per cent. cut in their interest last year by virtue of taxation, upon the same footing as the private mortgagee, he proposed to supplement the taxation on interest from government bonds by a stamp duty on interest coupons of 10 per cent.

This brings me (he said) to the position of the tax-free debentures. Apparently both the economists and the Royal Commission contemplate that any stamp duty imposed or interest reduction should apply to the tax-free debentures as well as those not tax free. The argument used is that this stamp duty is a special revenue duty framed for an emergency and not forming part of the ordinary system of income tax. This view is held not only by the Royal Commission and the economists, but it appears to be considered justifiable by some of the stock exchanges and other organisations dealing in investments. I am unable to acquiesce in this view and it must therefore be understood that, while the recommendation is submitted to the House by the Government on the advice and acquiescence of the authorities I have quoted, it does not express my own personal view.

## The Government's Plan

The plain man considers that this device is merely a quibble to tax government bonds that were declared tax free, and a repudiation of a solemn contract entered into with investors. In the Legislative Council Sir Francis Bell, who unsuccessfully introduced a motion to delete the preamble to Part III, said that the action of the Government was without precedent in the Parliamentary history of England and New Zealand, and that it creates a precedent which would be used the moment the Labour party got into power. Well might the Prime Minister say that the Government was embarking on a voyage in an uncharted sea, and did not know where the rocks were.

The reason why this legislation has been generally accepted was well put by the *Otago Daily Times* of Dunedin :—

Under the stress of circumstances (said the *Daily Times* on May 11) proposals have been adopted which are destructive of principles that have generally been regarded in British communities as unsatisfactory. Securities of all kinds have been statutorily reduced in value. The old notion of the sanctity of a contract has been temporarily abolished. How long it may take to revive it must be doubtful. The mortgage system in New Zealand has received a blow from which it may never recover. The legislation to which all this is attributable was framed with the object of securing that invested capital might be subject to losses commensurate with those inflicted on public servants, in whose salaries fresh cuts are being made as part of the programme of economy that has been forced on the Government. And, because it has been generally recognised that the sacrifices that are necessary in order that the Dominion may fight its way back into financial health must be distributed as equitably as possible, there has been a wide measure of acceptance of, and acquiescence in, the legislation requiring a reduction of interest rates and rentals.

### *Unemployment*

The Unemployment Amendment Act effected the following changes. It imposed an emergency unemployed charge of 1s. in the £ (in lieu of 3d.), which is estimated to bring

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in between £3,000,000 and £3,500,000. This is in addition to the general levy of £1 a year, estimated to produce just over £400,000. The tax is now extended to include women with individual incomes below £250 a year from sources other than salaries or wages, though they receive an exemption of £20 on such income. The State pound for pound subsidy has been cancelled, and the Unemployment Board has taken over the responsibility of the Hospital Board for the relief of distress arising out of unemployment in the case of people who are able and willing to work. The change-over is being gradually accomplished, though not without friction. The Board has power to utilise its funds for the purchase of food, clothing or other necessities, and, if necessary, for the payment of rent for the benefit of unemployed and relief workers or their families or dependents.

Power is given the Minister of Employment to make agreements with owners or occupiers of land for occupation or cultivation by unemployed workers and their families, and for the erection of suitable dwellings. The object is to give these people an opportunity of becoming owners of small areas in developed districts already provided with roads and other facilities. Each holding will be equipped with a cottage of the public works type. Wherever possible the holding will be part of an existing farm, and the farmer will be asked to co-operate in the provision of seeds and stock and the loan of implements. The areas will range from five to ten acres, and it will be possible for the holder of the section ultimately to lease or purchase a small farm including his original holding, for it is proposed to take options over the adjacent land. In the meantime the holder will have a chance of providing his family with some food. It is also proposed to select holdings of two acres or more, so located as to permit the holder to obtain work on surrounding farms. Authority is given under the scheme to spend up to £500,000.

On June 15 Mr. Coates, the Minister for Employment,

## The Government's Plan

said that the small-farm plan was being taken up with enthusiasm, and that 1,000 practical farmers were giving their help and advice gratis. Some 300 sections had already been approved and cottages were being erected; from 300 to 400 offers of further sections were under consideration. The development of milking on the share system promises to become an important feature of the scheme, but whether the benefit conferred will justify the heavy expenditure seems doubtful.

In announcing the new proposals on March 23, Mr. Coates said that the number of registered unemployed on October 6, 1931, was 51,408, but at the date of his speech the number had remained fairly constant at about 45,000 for several weeks. (The number registered on June 6 was 53,479 but there are no fewer than 66,400 odd receiving relief in various forms from the Unemployment Fund, the difference being accounted for by the fact that a registered man who receives relief employment of a more or less continuous character is removed from the register.) The total number of men in subsidised employment on farms was 17,000. About 1,000 single men had been moved from congested city areas into camps for highway construction, but the system would be further extended, and the purpose not confined to road work. They had also begun to establish camps for married men to enable them to undertake more useful tasks than was possible in the cities.\* Gold prospecting and land drainage and improvement were absorbing a large number, and land settlement was also being carried on or contemplated by private individuals.

At a later date Mr. Coates announced a further scheme for assisting building and repairing operations, which the Unemployment Board would subsidise to the extent of one third of the wages paid, provided that the amount does not exceed 22s. 6d. a week. There are said to be between

\* The number of married men in the cities had only fallen from 11,500 in October to 11,200 in March.

## New Zealand

5,000 and 6,000 building tradesmen in the ranks of the unemployed. On April 22 Mr. Coates announced a change in the relief scheme to operate from May 1, the stand-down week for relief workers being abolished and a new scale of payments adopted. The revenue of the Unemployment Fund was estimated at £3,600,000 while the total relief pay on scheme 5 alone at the rates announced must exceed £3,000,000. The change-over of the burden of relief from the Hospital Boards to the Unemployment Board was to take place in about a fortnight.

As a protest against the new scheme the Leader of the Opposition moved the adjournment of the House in order to provide an opportunity for discussing the new rates of relief pay, which were said to have made the position of the unemployed worse than before. Labour members contended that the new scheme had increased discontent and unrest among relief workers; that the Government was pursuing a wage reduction policy; that while about 167,000 women paid the unemployment tax, no provision was made for them, and that the payments made should be at least equal to the sustenance rates laid down by the original Act.

The general position with regard to unemployment is causing everyone concern. Before the increased taxation referred to above was imposed, the expenditure under the Act from the Unemployment Fund was at the rate of approximately £50,000 per week or just over £2,500,000 a year. The increased taxation now imposed will make available an amount estimated at from £3½ to £4 million. The expenditure from the Unemployment Fund has, however, been growing rapidly and the new taxation will evidently be insufficient to provide relief for all unemployed on the scale which is being adopted. If the number of registered unemployed increases, as seems likely, and relief is to be provided for the country districts as well as the cities, it will probably take from £4½ to £5 million to meet the cost, and further taxation seems inevitable. Indeed

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rumours are now current of a special session for the purpose. The Consolidated Fund revenue for 1930-31 was just over £23 million. The figures for 1931-32 have not yet been published but they will be much lower, and for the current year it is not anticipated that the Consolidated revenue will greatly exceed £20 million. Serious minded people are asking themselves whether New Zealand can afford to spend a sum approximately equal to 25 per cent. of the Consolidated Fund revenue on unemployment relief.

### II. THE REACTION

WHILE the Government has been doing its best to carry out its policy of avoiding a "dole" and giving work to the unemployed and sustenance to those unable to work, the Labour party, both in and out of Parliament, have been relentlessly violent in their opposition, though their criticism has been destructive rather than constructive. From their point of view the Government's policy is calculated to diminish the purchasing power of the people, to divert an increasing number of workers from regular industry into what they call "the slave camps" of the Government at a starvation wage. The Government, they say indeed, intends "to turn New Zealand into a slave camp, with the mass of the useful population intimidated into cringing servitude by the lash of hunger and the fear of unemployment." Although women have to pay the unemployment tax, they are excluded from all unemployment schemes. Nor has the Government any plan for giving training or employment to unemployed boys between 15 and 20, whose number is estimated at 20,000, and to whose plight the Auckland Committee of Church leaders called attention on June 4. Higher graduated taxation and the utilisation of our internal credits, or a policy of inflation would appear to be the measures upon which the Labour party, if in office, would rely to solve the unemployment problem.

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They warned the Government that its policy was breeding a revolutionary party. Last Easter at Westport, Mr. H. E. Holland, their leader, stated that if the Arbitration Bill were passed and the recommendations of the National Economy Committee adopted, the "most dangerous hour in the history of New Zealand would have struck," and "all the conditions making for industrial upheavals and insurrectionary developments would have been created." Speeches by other Labour spokesmen followed similar lines. A speaker in the Legislative Council feared that some of these gloomy anticipations were largely responsible for the unrest that followed.

During the last two months we have had unrest, disorder and riot. Dissatisfaction with the conditions of the employment of relief workers and the nature of the relief granted have led to strikes of unemployed and, at the time of writing, a strike of coal miners on the west coast of the South Island is in progress. At Dunedin, at the beginning of April, because rations in kind were given instead of orders, there were disturbances in the course of which an attempt was made to overturn the Mayoress's car and to drag her out of it. Windows were broken and there were clashes with the police.

On April 12 Mr. Holland warned the House that what had happened at Dunedin was a faint rumbling compared to what was likely to happen throughout the Dominion. His prediction proved correct. On April 13 in Auckland a meeting of post and telegraph employees, who have been co-operating with the Labour party in its protest against "cuts," attracted a large number of unemployed and they were addressed through a megaphone. A small body of mounted police, behaving with great restraint and courage, attempted to clear a passage, but were so roughly handled that twelve had to be taken to hospital, at least three of them seriously injured, and some 150 casualties were treated by the St. John's Ambulance Association. While the police were busy with the crowd at the Town Hall, the hooligan

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element ran amuck, smashed window after window in Queen Street, and looted liquor, jewellery and clothing, but no food. That the attack was premeditated was shown by the number of battens torn from fences and the heaps of stones. Special constables were enrolled, and naval units sent by the *Philomel* to assist the police. The following night, despite all precautions, another, though a less serious, disturbance took place in the Karangahape Road, spasmodic attacks being made upon windows, but the police, the specials in their steel helmets, and the blue-jackets kept the crowd on the move until it dispersed.

Preparation was also promptly made in Wellington to cope with anticipated trouble. A large body of special constables was enrolled, public meetings were prohibited and a Public Safety Conservation Act on the lines of the Imperial Emergency Powers Act of 1920 was passed into law. This Act authorises the Governor-General, under certain conditions, to declare a state of emergency either throughout New Zealand or in any specified area by proclamation, and to make regulations necessary for the public safety. Mr. Holland and Mr. McCombs, a Labour colleague, expressed their regret at the lawlessness and their sympathy with the injured, but according to Mr. Holland the trouble was "the inevitable result of the Government's policy," and Mr. McCombs considered "the lawlessness entirely due to the maladministration."

Christchurch was the next city to suffer. The staff of the Tramway Board went on strike on May 3-4. About 6 a.m. as the first tram for Sumner was coming out of the sheds some 300 men armed with iron bars and stones attacked it, but they were promptly routed by the police. A stick of gelignite was found on the tram line. A football team had to abandon a match in Black Maria to escape the mob and there were subsequent small isolated instances of picketing and window smashing.

On May 10 Wellington's turn came. There had been meetings of strikers to protest against the new relief scale,

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and a procession some 4,000 strong marched to Parliament Buildings. For two hours the crowd waited patiently while deputations interviewed Mr. Coates. Not appreciating what was going on inside, the crowd grew restless. At last, just at dusk, when a promise was made that Mr. Coates would announce amendments in the morning, there was a cry of "Up the town!" and some 30 or 40 young irresponsibles rushed along Lambton Quay, Willis and Manners Streets, upsetting fruit stalls and motor cars and breaking some 174 windows—quite indiscriminately. There was little looting but in most cases the damage was done out of pure wantonness. There was indeed not much time to pillage as the police were hot-foot in pursuit.

Eventually the rioters were intercepted and some arrests made. A meeting next day on a vacant section in Cuba Street looked as if it might develop into a further outbreak but on the first volley of stones the small body of police, foot and mounted, charged with their batons and dispersed the crowd.

To so small and law-abiding a population as that of New Zealand these disturbances were naturally of considerable concern, but the cabled reports to other countries gave an exaggerated idea of their extent and importance. The pronouncement of the Wellington stipendiary magistrate in sentencing the convicted rioters of that city is applicable to all the disturbances both in Wellington and the other centres.

My opinion (he said) is that this orgy of window-smashing and looting was not the work of the genuine unemployed. It was, I think, the work of a small band instigated and led by members of an organisation operating in our midst—the Communists—whose doctrine appears to be the fostering of mob violence and revolutionary disorder.

Some of the associations of members of the public service, however, mainly employees in the general division, corresponding to members of trade unions in private employment, not content with a petition to Parliament protesting

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against further cuts and suggesting a system of inflation, actively joined the Labour party in demonstrations against the Government. Notable among them was the Post and Telegraph Employees Association—not to be confused with the Post and Telegraph Officers Guild—the Amalgamated Society of Railway Servants, the Railway Tradesmen's Association and the Engine-Drivers' and Firemen's Association. The attention of the Prime Minister was called to a letter dated March 24 issued by the Thames Section of the Post and Telegraph Employees Association to the following effect :—

Petition to Parliament against further reductions in salaries and wages. For the information of the members of your Association I have to inform you that the following business men could not see their way clear to sign the petition which I circulated in Thames protesting against further salary and wage reductions—an admission that they were in favour of the cuts. It is the intention of the members of my organisation to place a boycott against all the under-mentioned firms. A list of the names of eleven firms was attached.

Proof was given too that the threat was being put into effect. Further the *Katipo* (the Maori name of a venomous spider), a small journal that has the backing of the Association, has been abusing the Government. The Prime Minister thereupon declared that it was time that the public servants of New Zealand realised that they were public servants and ceased trying to pose as the "bosses" of the public, but he unfortunately failed at the same time to make clear to the public the absolute loyalty of the administrative branch of the service and its abstention from politics. In the last Bill of the session, the Finance Bill, a clause has been inserted giving the appointing authority, with the concurrence of the Governor-General in Council, power to terminate without notice the employment of public servants, who have hitherto been deemed to be on three monthly terms, if adjudged guilty of conduct calculated to incite, procure or encourage grave acts of violence, lawlessness or disorder or if by

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public statements intended for publication they have sought to bring the Government of New Zealand into disrepute, or in any other manner have shown conduct gravely inimical to the order or good government of New Zealand.

The clause was passed, although other people besides the protesting Labour members considered that it was too vague, and that it placed too dictatorial a power in the hands of the appointing authority.

Another clause in the same Bill, extended the life of the present Parliament for a year on the ground that the Government plan for the adjustment of the Dominion's finances required four years. The extension was strongly opposed as unconstitutional, even by some of those who believe that our present three year term is too short. It, however, also became law.

### III. IMPERIAL MATTERS

#### *The Treaty With Canada*

THE treaty between Canada and New Zealand ratifying the trade agreement recently arrived at by Mr. Downie Stewart and Mr. Stevens at Honolulu and signed on April 23, came into force on May 24. Mr. Stewart informed the House that it would not, he considered, have been a good augury for the success of the Imperial Economic Conference if two of the self-governing Dominions who were to take part in it had been unable to come to a friendly agreement with regard to their own trading conditions. In view of that Conference, the agreement is to remain in force for only one year, and the whole subject will be reconsidered in the light of the decisions reached at Ottawa. There is a long list of affected articles, but those of chief interest are New Zealand butter and Canadian motor vehicles. As regards the former, the same rate has been fixed as for Australian butter, i.e. 5 cents a lb. in lieu of the present British preferential tariff rate of 8 cents.

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There is still the possibility (said Mr. Stewart) that during the winter months, Canada might in future years, even under the conditions now prevailing, require a certain amount of imported butter, and if the rate of 5 cents per lb. is made permanent, New Zealand should be able again to supply the market.

One valuable concession to New Zealand (and apparently also to other parts of the Empire) is that wool, hides, skins and pelts will continue to be free of duty, and the Canadian Government has decided to impose a general and an intermediate tariff on those goods when they come from outside countries.

Briefly, New Zealand has secured the same rates as Australia; indeed on a substantial number of items of special interest to her she has secured lower rates than Australia.

Among other things, Canada is now to receive a preference of 2s. per 100 super feet on her rough sawn and dressed timber.

The dual purpose of encouraging certain New Zealand industries and of assisting trade with the United Kingdom is (said Mr. Stewart) achieved by imposing on certain Canadian products higher duties than on the competing goods from the United Kingdom, and in the case of motor vehicles by insisting that before they can obtain the benefits of the British preferential tariff they must contain 75 per cent. of Canadian material and/or labour, and in other respects comply with the regulations in force for the application of the British preferential tariff. When motor vehicles do not comply with these conditions, but contain over 50 per cent. and less than 75 per cent. of Canadian material and/or labour, the duty is increased by 10 per cent.

The requirement of a 75 per cent. Canadian content for motor vehicles gives effect to the wishes of the motor-car manufacturers in the United Kingdom, and the extra duty of 10 per cent. on the vehicles having a lower Canadian content than 75 per cent. will assist the United Kingdom manufacturers in maintaining their trade with this country.

Mr. Stewart went on to explain that the reason why Canadian goods had not been wholly replaced under the British preferential tariff—New Zealand goods had always been entitled to the British preference in Canada—was, that

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before such a policy was adopted, it was considered that the whole position should be discussed at Ottawa with the representatives of the United Kingdom and Canada, and, if necessary, also with other parts of the Empire.

The press seems to consider that New Zealand has obtained as much as could be expected under the circumstances.

### *The Ottawa Conference*

For the last three months keen interest has been taken in the question of who is to represent New Zealand at the Conference and the policy that is to be put forward. A special committee of the Cabinet consisting of the Prime Minister, Mr. Stewart and Mr. Masters has been obtaining information from the various departments and preparing a policy, but the country has not yet been told what that policy is to be, although the Government is known to have been in close touch with the British Government. There was a good deal of intrigue in connection with the appointment of parliamentary representatives. It was only announced on May 27 that Mr. Forbes, Mr. Coates and Mr. Downie Stewart were to go, accompanied by the heads of the Customs and Treasury departments, and five advisers representing the Meat Producers Board, the Dairy Produce Board, the Fruit Export Control Board, the Fruit Growers Federation, the Farmers Union and the Manufacturers Association. The expenses of these advisers will not be paid by the Government.

In normal times such a delegation would have met with general approval, but in view of its present serious condition the metropolitan newspapers were practically unanimous in condemning the decision of the Prime Minister and the Minister of Employment to leave New Zealand. Many people believed that Mr. Downie Stewart, with the necessary official assistance, could himself represent the Dominion single-handed, as he did in the negotiations with Canada, and that he is quite capable of dealing with the problems of currency, price level and banking that are to be

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discussed. The Prime Minister had warned our people against "undue expectations." "The return that New Zealand could make to Britain for the preference already given was," he said, "limited by the fact that already very extensive concessions and preference had been granted to Great Britain, a fact," he added, "fully recognised there." But in spite of this warning, there are lively hopes, especially among the primary producers, that New Zealand will derive great benefit, and the primary producer group urged that she should, in any case, send a strong delegation, representative of all interests, as the work would be beyond the capacity of any one man. The various interests here, moreover, sheep farmers, dairy farmers, manufacturers, fruit growers, tobacco growers, are all reminding the Prime Minister of the privileges he might ask for them, and of the protection that should be assured to them when Great Britain's claims come up for consideration. None of them, however, suggests what really substantial measure of reciprocity we ourselves can offer. The slogan of New Zealand for the Conference might be said to be, "It is more blessed to receive than to give." The Sheep Owners Federation want tariff preference for their mutton and lamb; the Dairy Board wants the quota system plus a tariff, and by the quota system they mean that all New Zealand dairy produce should enter Great Britain free, and that the quantity from foreign countries should be controlled. For the purpose of the quota they would take the 1930 figures as the basis.

There had for some time past been considerable doubt as to whether or not Mr. Coates would go to the Conference, and on June 21 the 400 delegates at the Annual National Dairy Conference at Palmerston North urged the Government to let him represent the primary producers. The Prime Minister at once replied that it was the unanimous wish of the Cabinet, which was in complete agreement upon the representations to be made on its behalf, that Mr. Coates should head the delegation.

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### *The Irish Crisis*

On March 24 the New Zealand Government sent a cablegram to the British Government and another on April 4 to Mr. de Valera. The purport of these cablegrams was that it had always looked upon the Irish Treaty "not only as an agreed solution of differences hitherto existing, but as affording a basis satisfactory in all essentials for the free association of the Irish Free State as an equal partner in the British Commonwealth," and that "the principles embodied in the Statute of Westminster (which New Zealand accepted, despite the strongest objection, solely to meet the views of other Dominions differently situated) offer in all essentials a complete guarantee for the future of the autonomy and equality of all the Governments of the British Commonwealth." The Government hoped that the Irish Free State Government would not feel obliged to take any step that might prejudice the continued association of that State as an equal partner in the Commonwealth.

### *The Governor-General's Gift*

No chronicle of the quarter under review would be complete which failed to record the generosity of the Governor-General. Lord Bledisloe has already made gifts to encourage art, culture and agriculture, and on April 15 he proposed to forgo 45 per cent. of his salary of £7,500, already voluntarily reduced by him by £1,062 in consequence of the state of our finances. He and Lady Bledisloe have now purchased and given to the nation the former residence of Mr. James Busby, the first British Resident at Waitangi, in the Bay of Islands, the scene of the signing of the treaty of Waitangi, the Magna Charta of the Maori, together with 1,000 acres to be held under a trust which will provide for the preservation of this historic building in a national park.

New Zealand.

June 25, 1932.

## EAST INDIA (CONSTITUTIONAL REFORMS) COMMUNAL DECISION

1. The Prime Minister's promise on December 1 last to decide upon a provisional solution if the communities failed to agree is recalled.
2. On March 19 H.M. Government were informed that the failure of the communities to agree was blocking the reforms. They were satisfied that it was essential for progress that at least some of the aspects of the communal problem should be decided.
3. Their scheme is confined to representation in the provincial legislatures. Their proposals, moreover, only deal with certain aspects of the communal question. It is hoped that, once the method and proportions of representation are settled, the communities themselves will arrive at a *modus vivendi* on other communal questions.
4. The door is not closed on an agreed settlement, but the Government will not take part in any negotiations with a view to revision, or receive any representations, unless supported by all the parties affected. If, however, a practicable alternative scheme, either in respect of one or more Governor's provinces, or in respect of the whole of British India, is agreed upon by all the communities concerned before the proposed new constitution has become law, they will recommend its adoption by Parliament.
5. Seats in the legislative councils in Governor's provinces, or in the Lower House where there is an upper chamber, will be allocated as in the annexed table.
6. Election to seats allotted to Moslem, European and Sikh constituencies will be by voters voting in separate communal electorates, covering between them the whole area of the province (except backward areas). This electoral arrangement (and other similar arrangements specified below) may be revised after ten years with the consent of the communities affected.
7. All qualified electors, who are not voters in a Moslem, Sikh, Indian Christian, Anglo-Indian, or European constituency, may vote in a general constituency.
8. Seven seats will be reserved for Mahrattas in certain selected plural member general constituencies in Bombay.
9. Qualified members of the depressed classes will vote in a general constituency, but a number of special seats will be assigned to them (see the table). These seats will be filled by election from special constituencies in which only qualified members of the depressed classes will vote. These constituencies are to be formed where these classes are most numerous, but, except in Madras, should not cover the whole province. No number has been fixed, pending further investigation, for Bengal, as it seems possible that, in some general constituencies there, a majority of the voters will belong to the depressed classes, but the latter are intended to obtain not less than ten seats. No precise definition of depressed class voters in such constituencies has yet been made; but it will be based on the general principles advocated in the Franchise Committee's Report. The definition may have to be modified in some provinces in northern India. These special depressed class constituencies are to come to an end after twenty years, unless previously abolished with the consent of the depressed classes.
10. Election to seats allotted to Indian Christians will be by voters voting in separate communal electorates, but practical difficulties are likely to prevent the formation of Indian Christian constituencies, covering the whole

## East India (Constitutional Reforms)

area of the province, except possibly in Madras, and Indian Christian constituencies will almost certainly have to be formed only in one or two selected areas in the province. Indian Christian voters in these areas will not vote in a general constituency. Those outside will do so. There may have to be special arrangements in Bihar and Orissa, where a great many of the Indian Christians are aborigines.

11. Election to seats allotted to Anglo-Indians will be by voters voting in separate communal electorates. Anglo-Indian constituencies are intended to cover the whole area of each province, and to use a postal ballot, but no decision has yet been reached.

12. As regards the backward areas, the number of seats assigned is provisional, pending further investigation.

13. A certain number of seats are to be specially allotted to women. The electorate for each seat is to be limited to voters from one community (except at Shillong), and the special women's seats have been specifically divided between the various communities (see table). The necessary special electoral machinery has still to be framed.

14. The seats allotted to Labour will be filled from non-communal constituencies. The electoral arrangements have still to be determined, but in most provinces Labour constituencies will be partly trade union and partly special constituencies as recommended by the Franchise Committee.

15. The special seats allotted to commerce, industry, mining and planting, will be filled by election through chambers of commerce and various associations. The electoral arrangements have still to be framed.

16. The special seats allotted to landholders will be filled by election by special landholders' constituencies.

17. The method of election to university seats is still under consideration.

18. The determination of the constituencies is to be undertaken in India as early as possible. This may involve some slight variation from the number of seats now given, but the essential balance between communities will not be affected. No variation will be made in Bengal and the Punjab.

19. The questions of the composition of second chambers, and of which provinces shall have a second chamber have not yet been decided; but H.M Government consider that the composition of the Upper House in a province should be such as not to disturb the balance between the communities resulting from the composition of the Lower House.

20. The question of the size and composition of the central legislature is deferred until the question of the representation of the Indian States has been further discussed. Full regard will be given to the claims of all communities to adequate representation.

21. As already decided, Sind is to be a separate province, if it can be satisfactorily financed. The financial problems involved have, however, still to be reviewed in connection with other problems of federal finance. In the meantime figures for the existing province of Bombay are given as well as schemes for separate legislatures for Bombay and Sind.

22. The Bihar and Orissa figures relate to the existing province. It has not yet been decided whether Orissa is to be a separate province.

23. Figures are given for the Central Provinces including Berar, but no decision has yet been reached about the constitutional position of Berar.

London.

August 4, 1932.

## East India (Constitutional Reforms)

ALLOCATION OF SEATS IN PROVINCIAL LEGISLATURES (LOWER HOUSE ONLY).

Province.	General.	Depressed Classes.	Representatives from Backward Areas.	Sikh.	Mutiammandan.	Indian Christian.	Anglo-Indian.	European.	Commerce and Industry, Mining and Planting, &c.	Landholders, Special.	University, Special.	Labour, Special.	Total
Madras	..	..	134 (including 6 women)	18	1	0	29 (including 1 woman)	9 (inc. 1 woman)	2	3	6	2	6
Bombay (including Sind)	..	..	97 (6) (including 5 women)	10	1	0	63 (including 1 woman)	3	2	4	8	3	8
Bengal	..	..	..	(e)	0	0	119 (including 2 women)	2 (including 1 woman)	11	19	5	2	8
United Provinces	..	..	132 (including 4 women)	12	0	0	66 (including 2 women)	2 (including 1 woman)	2	3	6	2	250
Punjab	..	..	..	43 (including 1 woman)	0	0	86 (including 1 woman)	32 (including 1 woman)	2	1	1	5 (d)	3
Bihar and Orissa	..	..	..	99 (including 3 women)	7	8	42 (including 1 woman)	0 (including 1 woman)	2	1	2	4	175
Central Provinces (including Berar)	..	..	77 (including 3 women)	10	1	0	14 (including 1 woman)	0	1	1	2	3	112
Assam	..	..	..	44 (including 1 woman)(e)	4	9	0	34	1	0	11	0	108
North-West Frontier Province	..	..	9	0	0	3	36	0	0	0	2	0	50
Bombay (without Sind)	..	..	109 (b) (including 5 women)	10	1	0	30 (including 1 woman)	3 (including 1 woman)	3	7	2	2	7
Sind	..	..	..	..	0	0	0	0	2	2	2	0	60

(a) The composition of the bodies through which election to these seats will be conducted, though in most cases either predominantly European or predominantly Indian, will not be statutorily fixed. It is, accordingly, not possible in each province to state with certainty how many Europeans and Indians respectively will be returned. It is, however, expected that, initially, the numbers will be approximately as follows:—Madras, 4 Europeans, 2 Indians; Bombay (including Sind), 5 Europeans, 3 Indians; Bengal, 14 Europeans, 3 Indians; United Provinces, 2 Europeans, 1 Indian; Punjab, 1 Indian; Bihar and Orissa, 2 Europeans, 2 Indians; Central Provinces (including Berar), 1 European, 1 Indian; Assam, 3 Europeans, 3 Indians; Bombay (without Sind), 4 Europeans, 3 Indians; Sind, 1 European, 1 Indian.

(b) Seven of these seats will be reserved for Mahrattas. As explained in paragraph 9 of the statement, the number of special Depressed Class seats in Bengal—which will not exceed 10—has not yet been fixed. The number of General seats will be 80, less the number of special Depressed Class seats.

(c) One of the electorates is the zamindar's seat. The four Landholders' seats will be filled from special constituencies with joint electorates. It is probable, from the distribution of the electorates, that the members returned will be one Hindu, one Sikh, and two Muhammadans.

(d) This woman's seat will be filled from a non-communal constituency at Shimloli.



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